

Commonwealth of Pennsylvania

***2004-05***

***Governor's***

***Executive Budget***



**Edward G. Rendell**  
***Governor***

# **The Rendell Administration's Major Budget Goals**

- ✓ **Return Pennsylvania to prosperity — increase job creation & economic opportunity**
- ✓ **Improve academic achievement in Pennsylvania's elementary & secondary schools**
- ✓ **Lower local property taxes**
- ✓ **Improve the quality of life in Pennsylvania's communities**
- ✓ **Maintain the social safety net to protect Pennsylvania's most vulnerable citizens**
- ✓ **Make Pennsylvania government more efficient and citizen-friendly**

# **The Problems We Inherited**

# The Projected 2003-04 General Fund Budget Prior to Corrective Action

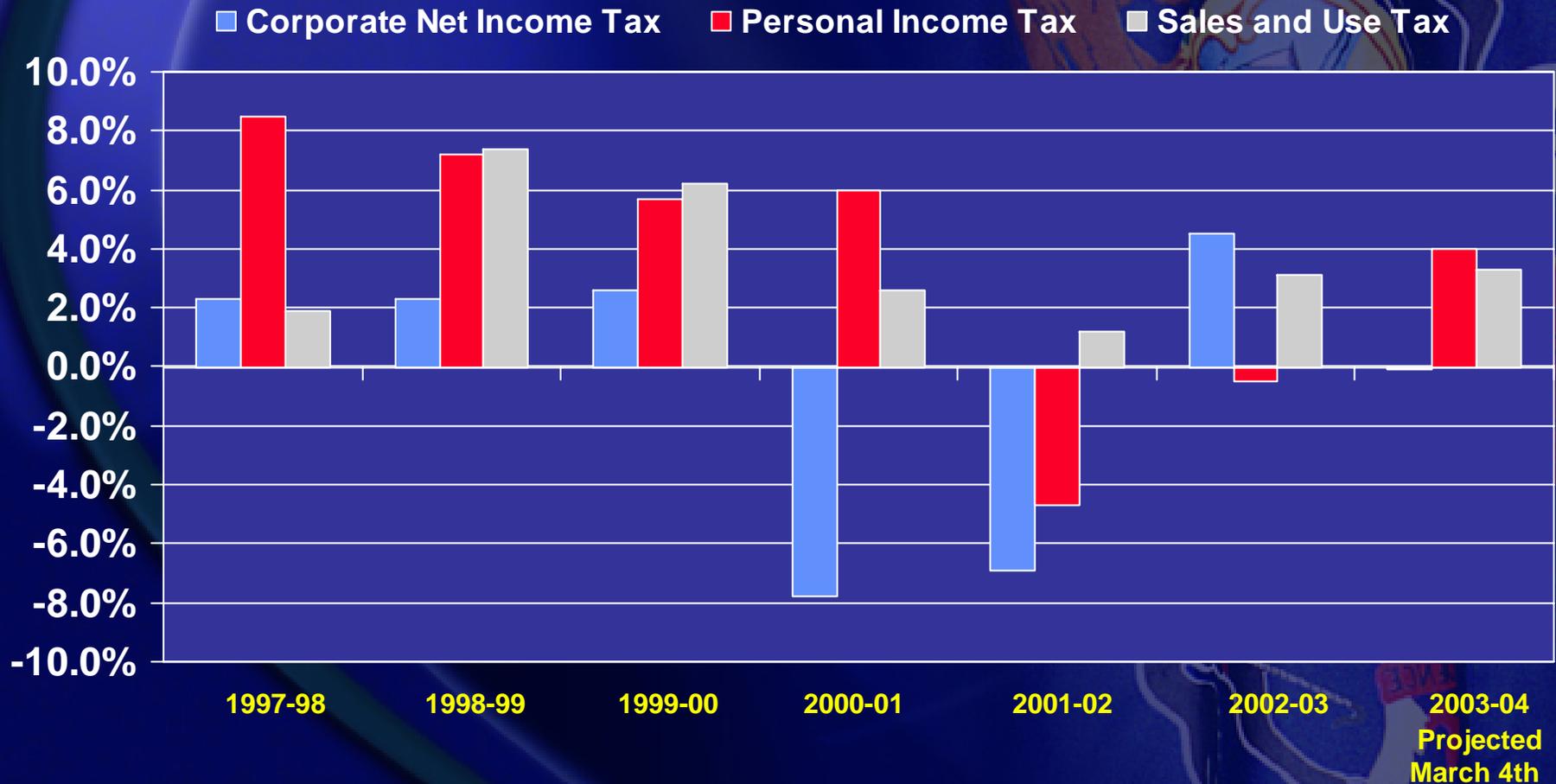
	Millions
Beginning Balance .....	\$ - 36
Receipts .....	20,279
Funds Available .....	\$ 20,243
Expenditures .....	- 22,646
<b>Ending Balance .....</b>	<b>\$ - 2,403</b>

- The projected 2003-04 deficit was in excess of 10% of estimated expenditures.

# Factors Contributing to the Projected FY2003-04 Deficit

## General Fund Growth Rates - Major Taxes Year over Year

*Growth in the tax base for the three major General Fund tax categories has been weak since the recession. Excluding revenue from tax increases enacted in the final 2003-04 budget, actual tax base growth has been less than 1% since 2000.*



# Factors Contributing to the Projected FY2003-04 Deficit

## Recent PA Tax Collection Trends

### Major General Fund Taxes

*Actual General Fund tax collections were lower in FY2001-02 and FY2002-03 than they were in 2000-01.*

(Dollar Amounts in Millions)

Dollars in Millions	Actual Collections 2000-01	Actual Collections 2001-02	Actual Collections 2002-03
Personal Income Tax	\$ 7,491.5	\$ 7,138.7	\$ 7,105.9
Corporate Net Income	1,603.4	1,418.5	1,396.6
Capital Stock & Franchise	1,063.0	913.4	896.3
Sales and Use	7,203.7	7,292.5	7,519.6
Motor Vehicle	1,080.0	1,161.8	1,245.9
Non-Motor Vehicle	6,123.7	6,130.7	6,273.7
Total	\$17,361.6	\$16,763.1	\$16,918.4
<b>Difference from 2000-01</b>		<b>\$ -598.5</b>	<b>\$ -443.2</b>
<b>Percentage Difference</b>		<b>-3.4%</b>	<b>-2.6%</b>

# Factors Contributing to the Projected FY2003-04 Deficit

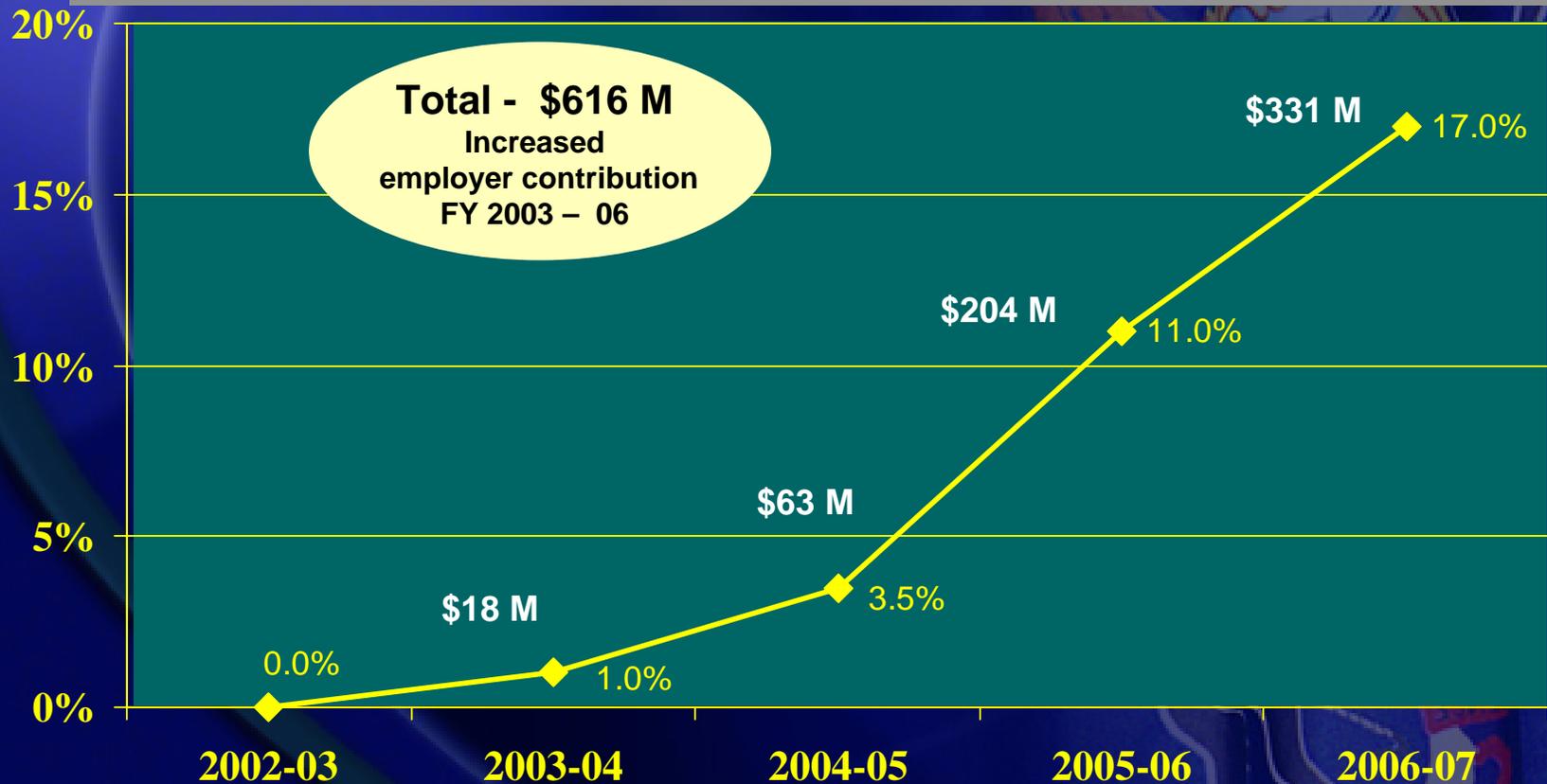
## One-Time Revenues Utilized to Balance the 2002-03 General Fund Budget

	<u>Millions</u>
One-Time Benefit – Decoupling from Federal Depreciation Tax Treatment . . . . .	\$ 350.1
One-Time Benefit – Various Escheat Changes . . . . .	197.6
Reduction in Scheduled Rate Cut – Capital Stock and Franchise Tax . . . . .	144.5
One-Time Extraordinary Increase – Transfer from State Stores Fund (over \$50M). . .	105.0
Loan from Underground Storage Tank Fund. . . . .	100.0
Other . . . . .	91.3
	<hr/>
	<b>Total \$ 988.5</b>
	<hr/> <hr/>

# Other Threats to Budget Balance

# State Employee Pensions Projected 2004-06 Contribution Rates Impact on the General Fund as a Percent of Payroll Prior to Corrective Action

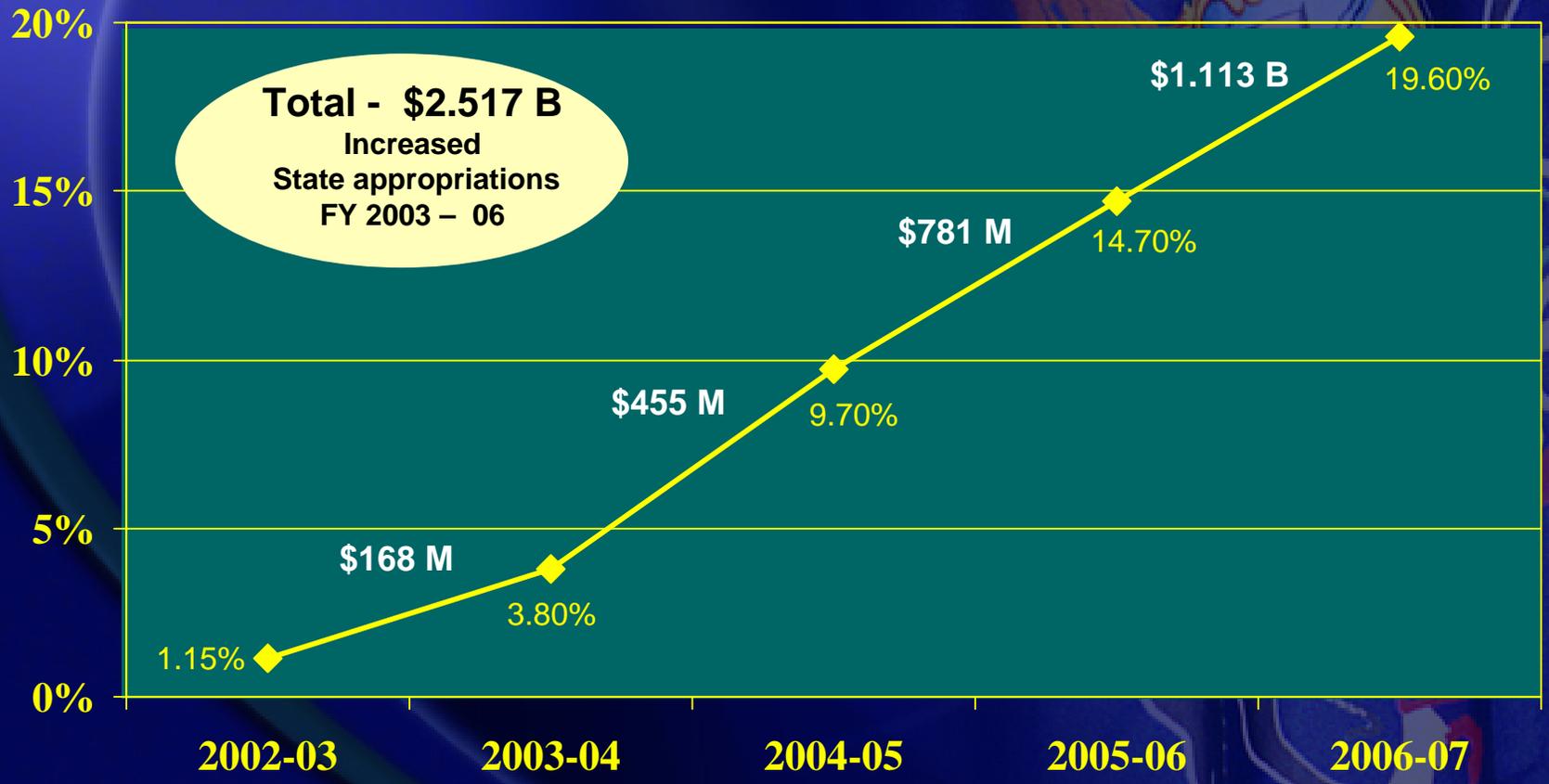
*Pension benefit increase combined with poor stock market performance created a large unfunded liability in the fund.*



# School Employee Pensions

## Projected 2004-06 Contribution Rates and Projected Commonwealth Appropriations Prior to Corrective Action

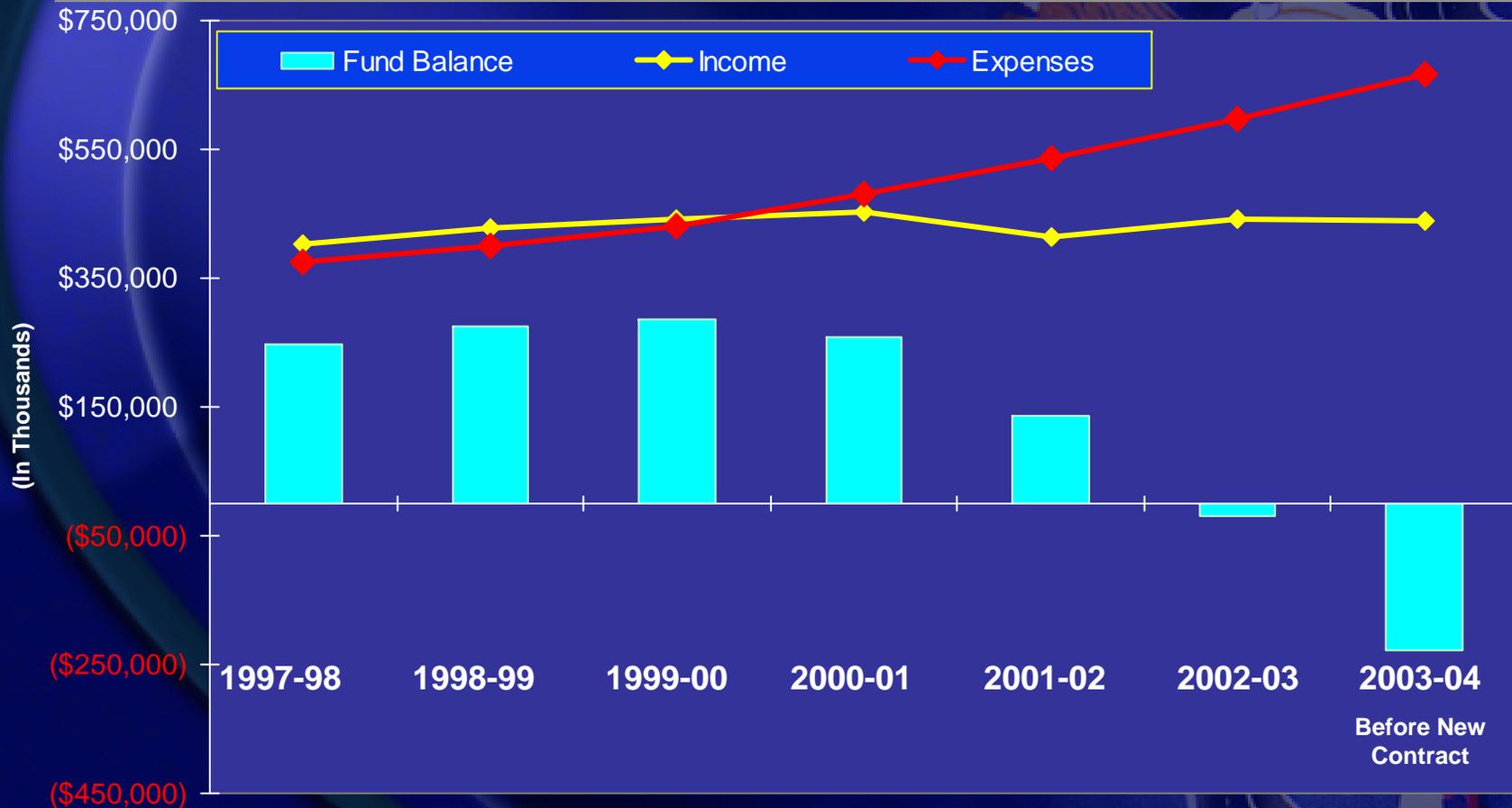
*Pension benefit increase combined with poor stock market performance created a large unfunded liability in the fund.*



# Pennsylvania Employees Benefit Trust Fund

## Active Employee Health Program

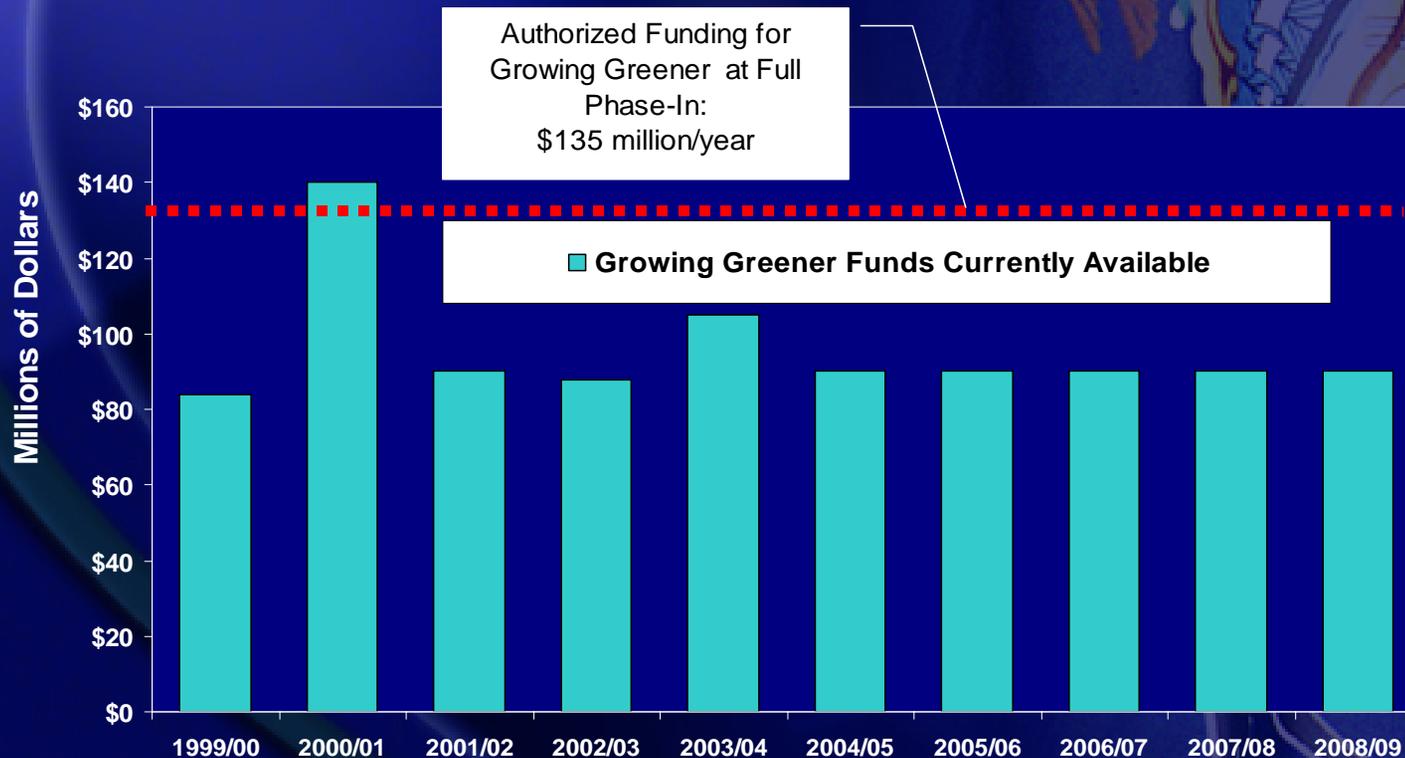
As health care costs escalated for Commonwealth employees in the late 1990s, state contributions to the Benefits Trust Fund were not adjusted upwards to compensate. On the contrary, several “contribution holidays” actually reduced state contributions. The “savings” were utilized to cover increases in wage and salary costs. Trust Fund reserves were depleted to make up the difference. By 2003-04 Fund reserves had been depleted and the Fund was on the verge of insolvency.



# Environmental Stewardship Fund ("Growing Greener")

## Projected Funding Levels Prior to Corrective Action

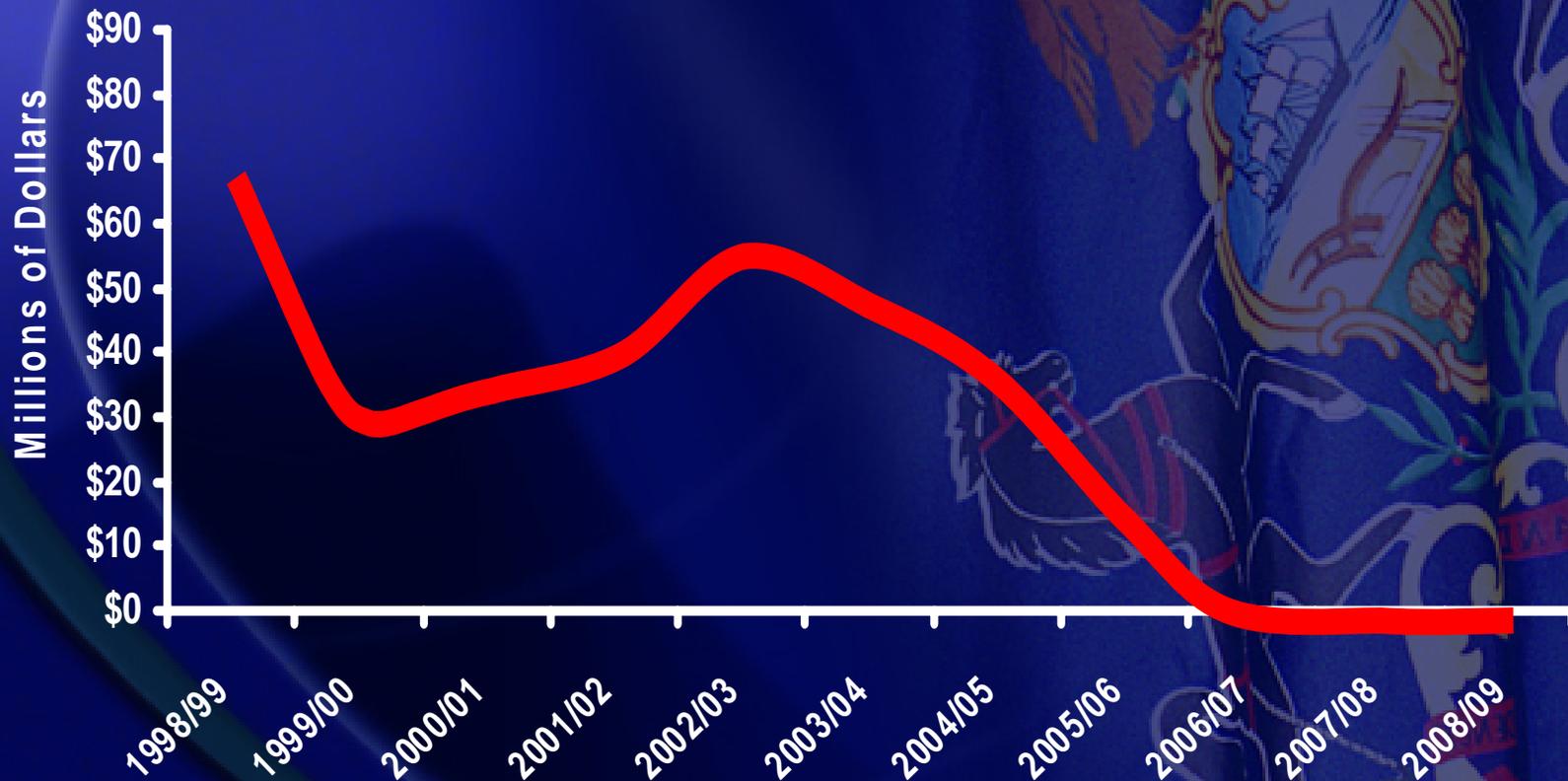
*Recurring funding sources currently assigned to the Environmental Stewardship Fund are insufficient to support the Fund's annual targeted expenditure level.*



# Hazardous Sites Cleanup Fund

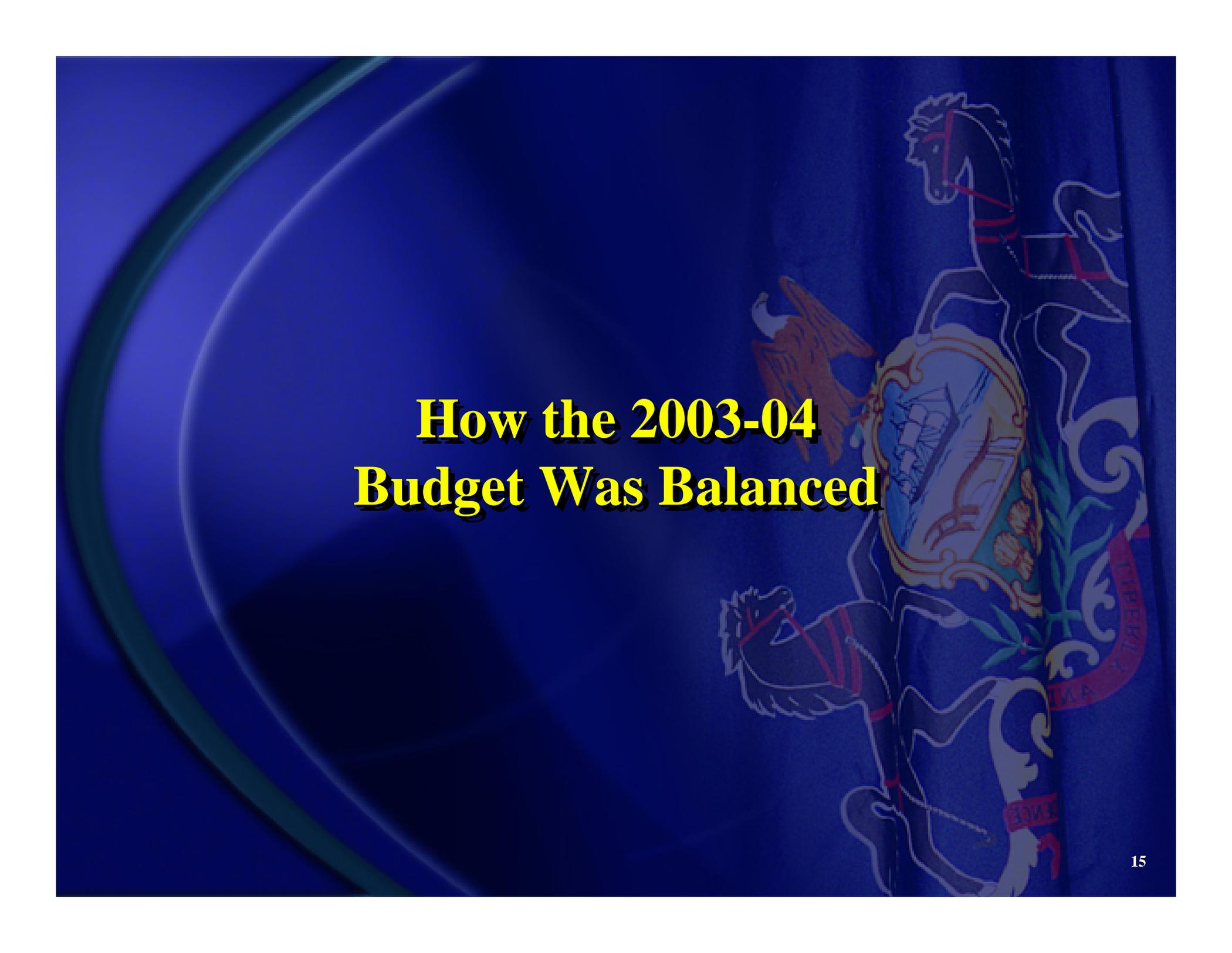
## Projected Funding Levels Prior to Corrective Action

*The Capital Stock & Franchise Tax was the primary funding source for the Hazardous Sites Cleanup Fund, but this funding source has been eliminated and a replacement funding source has not yet been identified.*



# Where We Stand Today





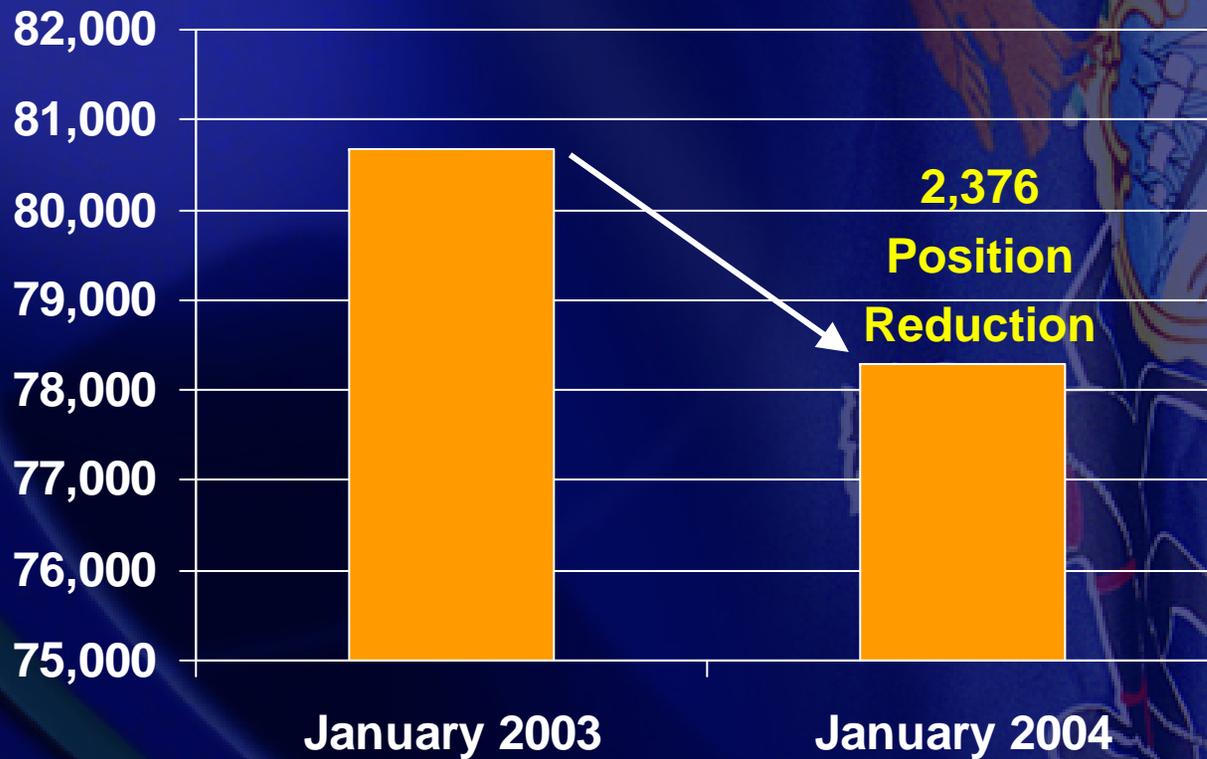
**How the 2003-04  
Budget Was Balanced**

# The 2003-04 General Fund Budget After Corrective Action

	Millions		
	Prior to Corrective Action	After Corrective Action	Difference
<b>Beginning Balance</b> .....	\$ - 36	\$ 209	\$ 245
<b>Receipts</b> .....	20,279	21,234	955
<b>Funds Available</b> .....	\$ 20,243	\$ 21,443	\$ 1,200
<b>Expenditures</b> .....	- 22,646	- 21,385	1,261
<b>Ending Balance</b> .....	\$ - 2,403	\$ 58	\$ 2,461

# Filled Salaried Complement

*The 2003-04 budget reduced general government administration expenses by 10% - a reduction of \$212 million. In addition, the filled staff complement has been significantly reduced.*



# Major Revenue Enhancements 2003-04/2004-05

*As a result of the slow-growing national economy, Commonwealth General Fund base revenue growth has been negative since 2000-01. Revenue enhancements enacted in December 2003 will bring recurring General Fund revenue back into alignment with recurring General Fund expenditures.*

<b>Revenue Enhancements</b>	<b>2003-04</b>	<b>2004-05</b>
Increase Personal Income Tax rate from 2.8% to 3.07%	\$ 301.7	\$ 728.9
Extend Gross Receipts Tax to cellular and interstate calls	\$ 222.4	\$ 362.3
Increase Cigarette Tax to \$1.35 from \$1.00.	\$ 118.1	\$ 241.3
<i>\$0.25 of Cigarette Tax to Healthcare Provider Retention Account</i>	\$ (88.4)	\$ (191.9)
Revise Escheats Program - Insurance Co. Demutualization	\$ 190.0	\$ -
Fee Increases	\$ 13.5	\$ 24.8
Various Other Revisions	\$ 36.7	\$ (11.1)
<b>Total</b>	<b>\$ 794.0</b>	<b>\$ 1,154.3</b>

# Major Proposed Tax Reductions 2003-04/2004-05

*The 2003-04 and 2004-05 budgets target tax cuts and tax credits to aid educational improvement and economic development.*

<b>Dollars in Millions</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Continued CSFT Phase Out	\$ (8.8)	\$ (66.3)	\$ (198.1)
PIT Special Poverty - Expansion (\$500 per dependent)	\$ -	\$ (13.9)	\$ (13.6)
Research and Development Tax Credit Expansion	\$ (15.0)	\$ (30.0)	\$ (40.0)
Sales Tax Exemptions (Call Centers)	\$ -	\$ (30.0)	\$ (30.0)
Sales Tax Exemptions (Telecomm Equipment)		\$ (40.2)	\$ (42.6)
Inheritance Tax (recouple to federal return basis)	\$ (22.1)	\$ (55.2)	\$ (76.7)
Education Improvement Tax Credits Expansion	\$ (30.0)	\$ (40.0)	\$ (40.0)
<b>Total</b>	<b>\$ (75.9)</b>	<b>\$ (275.6)</b>	<b>\$ (441.0)</b>

# Total General Fund Revenue Year over Year Growth Rates

*Without the revenue enhancements enacted in December 2003, General Fund revenue growth would still be negative in 2003-04.*

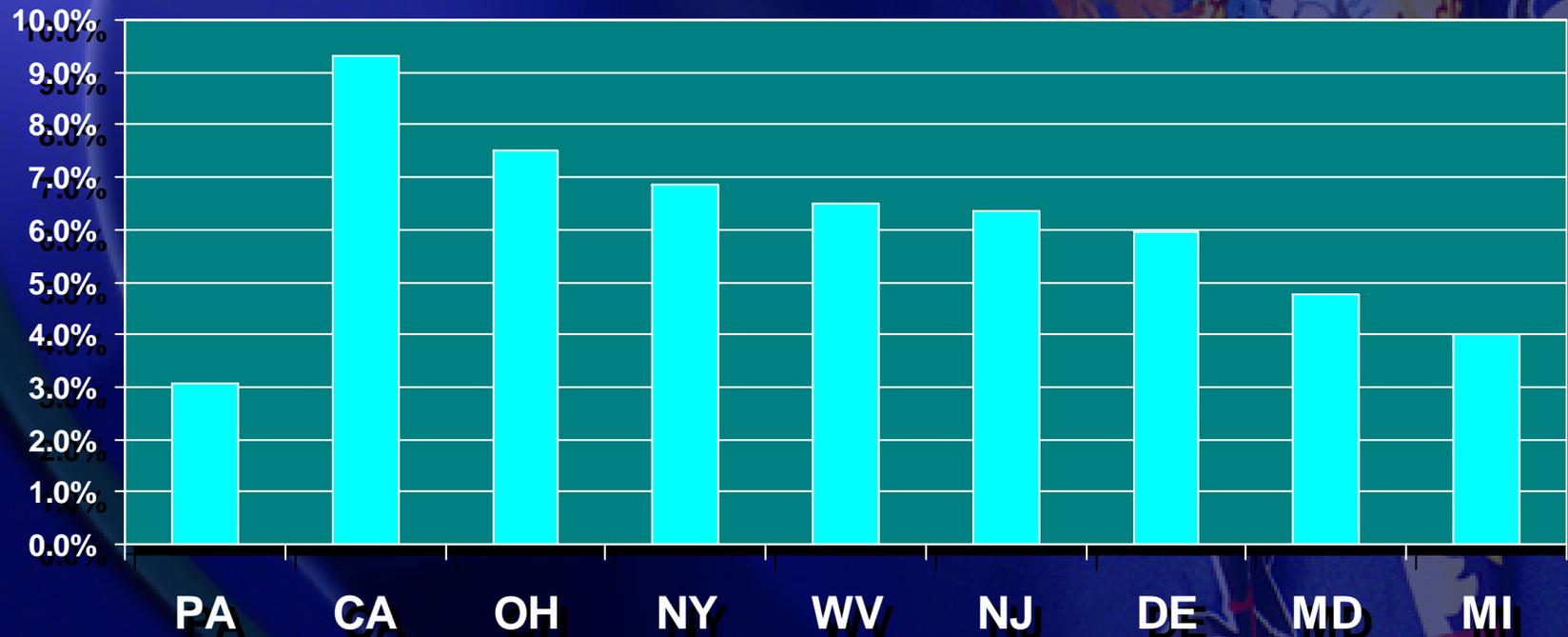


\* Includes tax base plus tax and revenue increases enacted with the 2002-03 and 2003-04 budgets.

# Comparison of Personal Income Tax Rates

## PA versus Neighboring States and Other Major States with Personal Income Taxes

*Pennsylvania continues to have one of the lowest Personal Income Tax rates in the U.S.*

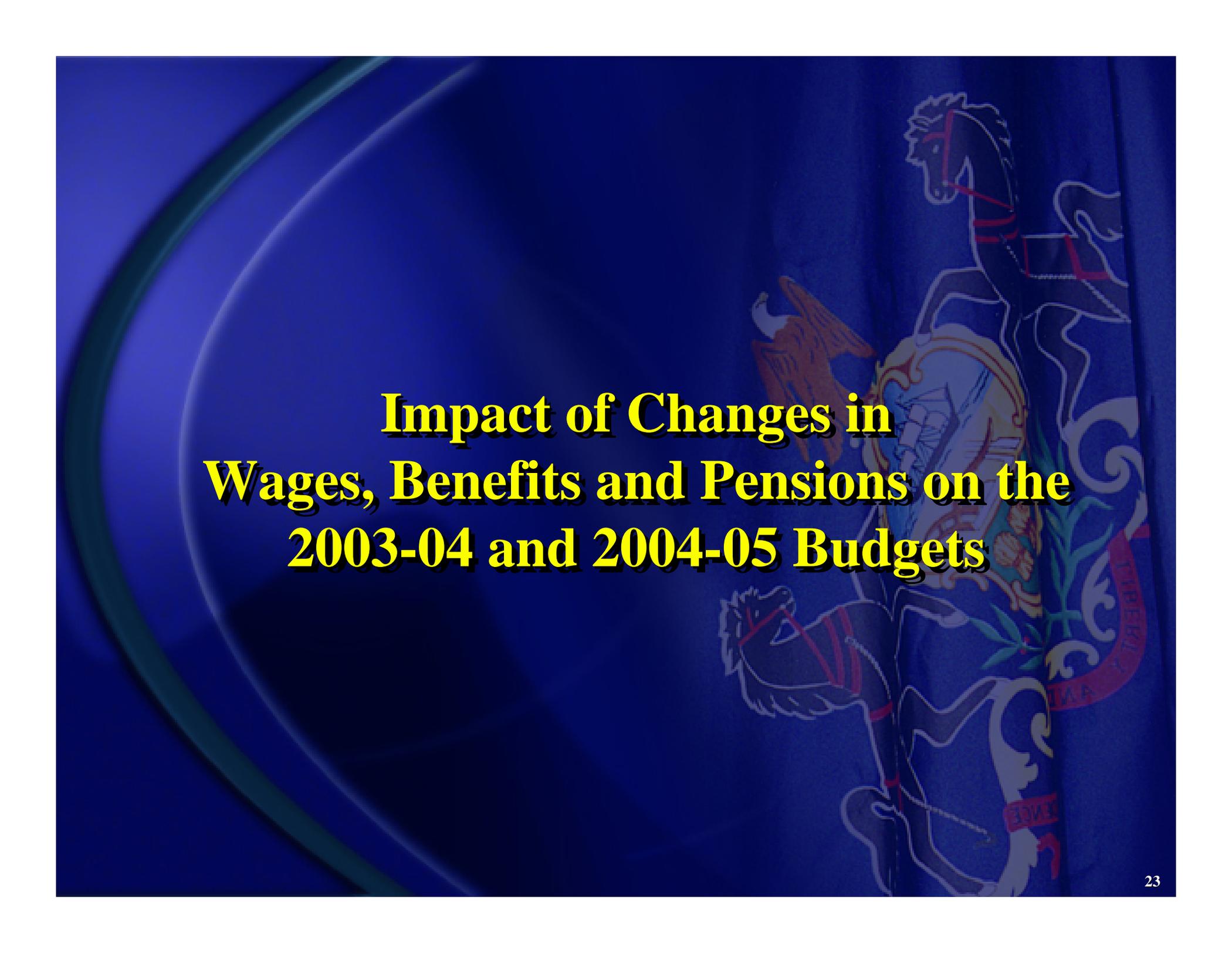


\* Based on comparison of top tax rate per state.

# One-Time Revenues Utilized to Balance The 2003-04 General Fund Budget

*The 2003-04 Budget reduced the Commonwealth's reliance on one-time revenues significantly – from \$988.5 million in 2002-03 to \$658.6 million in 2003-04, a one-third reduction.*

	<u>In Millions</u>
Federal Fiscal Relief .....	\$ 468.6
Escheats – Mutual Insurance Companies .....	190.0
<b>Total</b> .....	<b>\$ 658.6</b>



**Impact of Changes in  
Wages, Benefits and Pensions on the  
2003-04 and 2004-05 Budgets**

# Summary of Major Provisions PA Collective Bargaining Agreements FY2003-04 to FY2006-07

## Pay Increases

### General Salary Pay Increases:

- FY 2003-04 0%
- FY 2004-05 0%
- FY 2005-06 3.0% (effective July 1, 2005)
- FY 2006-07 3.5% (effective Jan 1, 2007)

### Annual Service Increments:

- NONE
- One Step effective July 2004
- NONE
- One Step effective July 2006
- One Step effective Jan 2007

## Health Benefits

- **Increase in financial contributions by the Commonwealth**  
from \$190 per employee pay period to:

- FY 2003-04\* \$235
- FY 2004-05 \$270
- FY 2005-06 \$275
- FY 2006-07 \$300

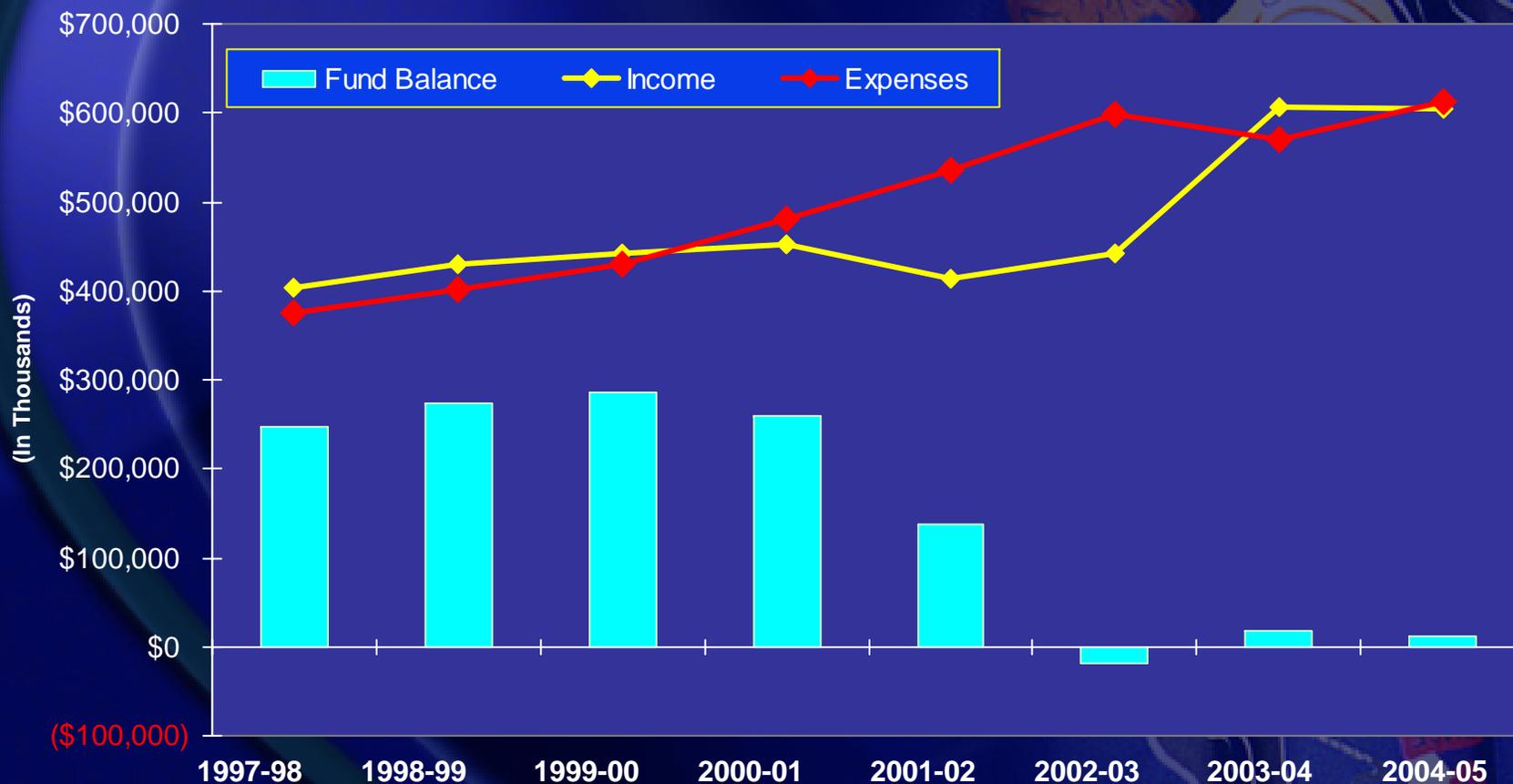
\* (plus an \$80 million lump sum contribution in 2003-04)

- **Significant Health Plan Re-Design and Restructuring**

# Pennsylvania Employees Benefit Trust Fund

## Active Employee Health Program

*The health insurance program for active Commonwealth employees run by the Pennsylvania Employees Benefit Trust Fund was rescued from insolvency through negotiated increases in the Commonwealth's financial contributions to the program and significant health plan re-design to slow the growth of expenditures.*



# Cost Comparison

## Previous and Current Collective Bargaining Agreements

(In Thousands)

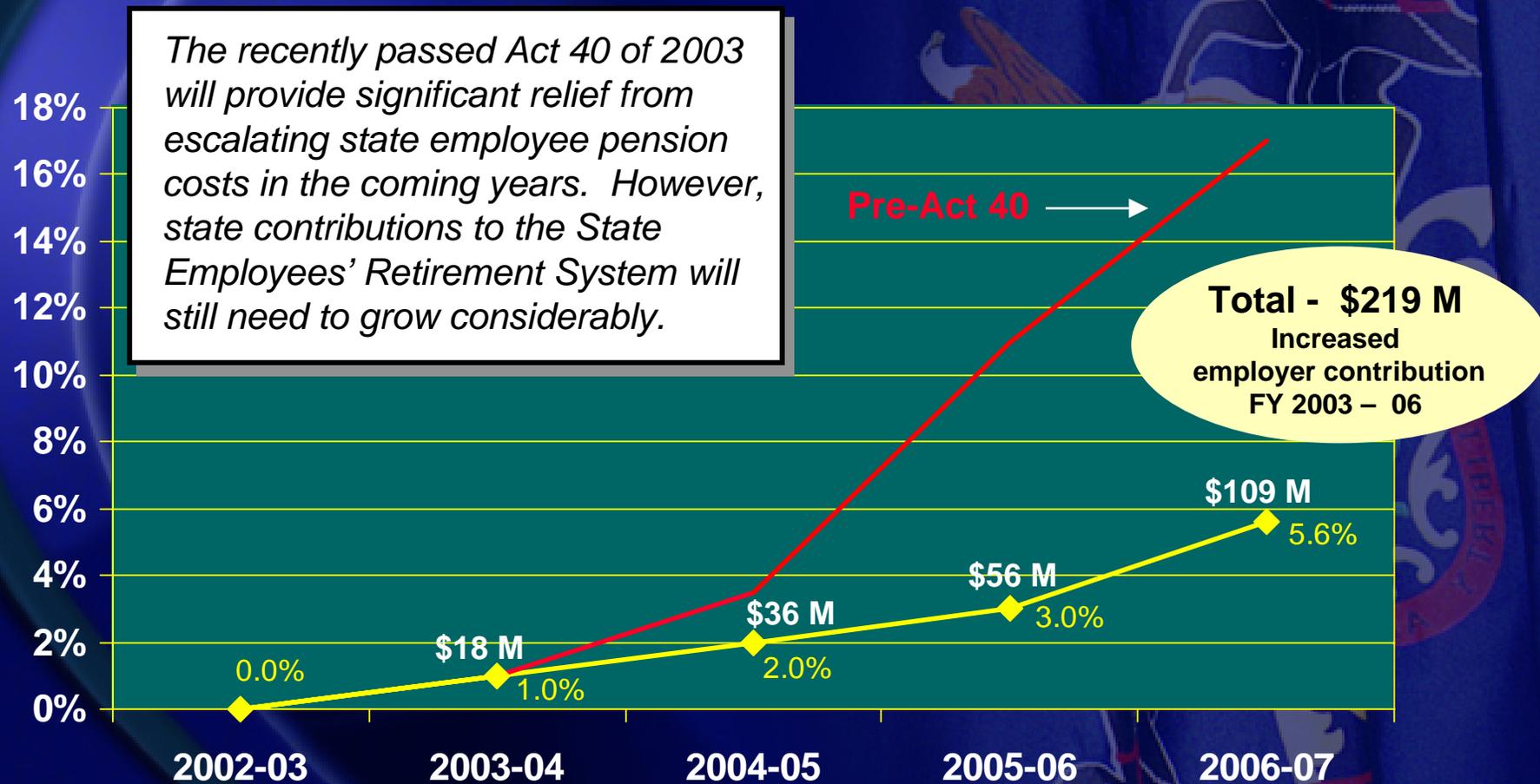
*Compared to the provisions of the recent previous collective bargaining agreements, the provisions negotiated in the current collective bargaining agreement will save the Commonwealth nearly \$1.3 billion over the four-year period of the agreement.*

	2003-04	Rate*	2004-05	Rate*	2005-06	Rate	2006-07	Rate*	TOTAL
<b>Previous Agreement:</b>									
General Salary Pay Increase	\$ 98,476	3%	\$242,882	3%	\$420,122	3.5%	\$622,411	3.5%	\$1,383,891
Longevity Increments (All Jan. 1)	51,499		121,427		192,850		269,556		635,332
<b>TOTAL</b>	<b>\$149,975</b>		<b>\$364,309</b>		<b>\$612,972</b>		<b>\$891,967</b>		<b>\$2,019,223</b>
<b>Current Agreement:</b>									
General Salary Pay Increase	. . . .		. . . .		\$126,600	3%	\$215,700	3.5% 1/1	\$ 342,300
Longevity Increments	. . . .		\$ 60,800	7/1	70,000		250,800	7/1 & 1/1	381,600
<b>TOTAL</b>	<b>. . . .</b>		<b>\$ 60,800</b>		<b>\$196,600</b>		<b>\$466,500</b>		<b>\$723,900</b>
<b>Difference</b>	<b>\$149,975</b>		<b>\$303,509</b>		<b>\$416,372</b>		<b>\$425,467</b>		<b>\$1,295,323</b>

# State Employee Pensions

## Projected 2004-06 Contribution Rates

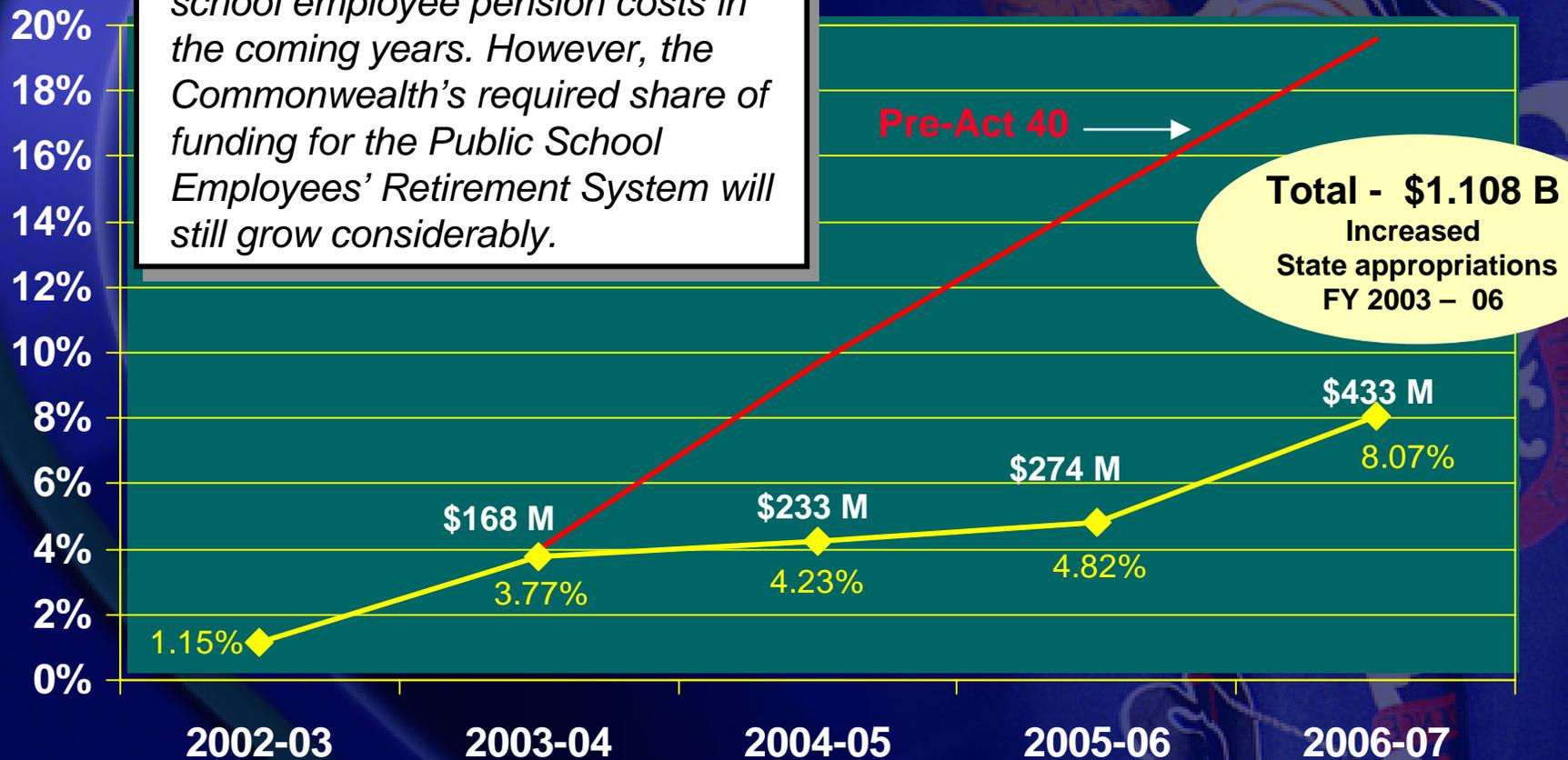
### Impact on the General Fund as a Percent of Payroll



# School Employee Pensions

## Projected 2004-06 Contribution Rates and Projected Commonwealth Appropriations

The recently passed Act 40 of 2003 will provide the Commonwealth with significant relief from escalating school employee pension costs in the coming years. However, the Commonwealth's required share of funding for the Public School Employees' Retirement System will still grow considerably.

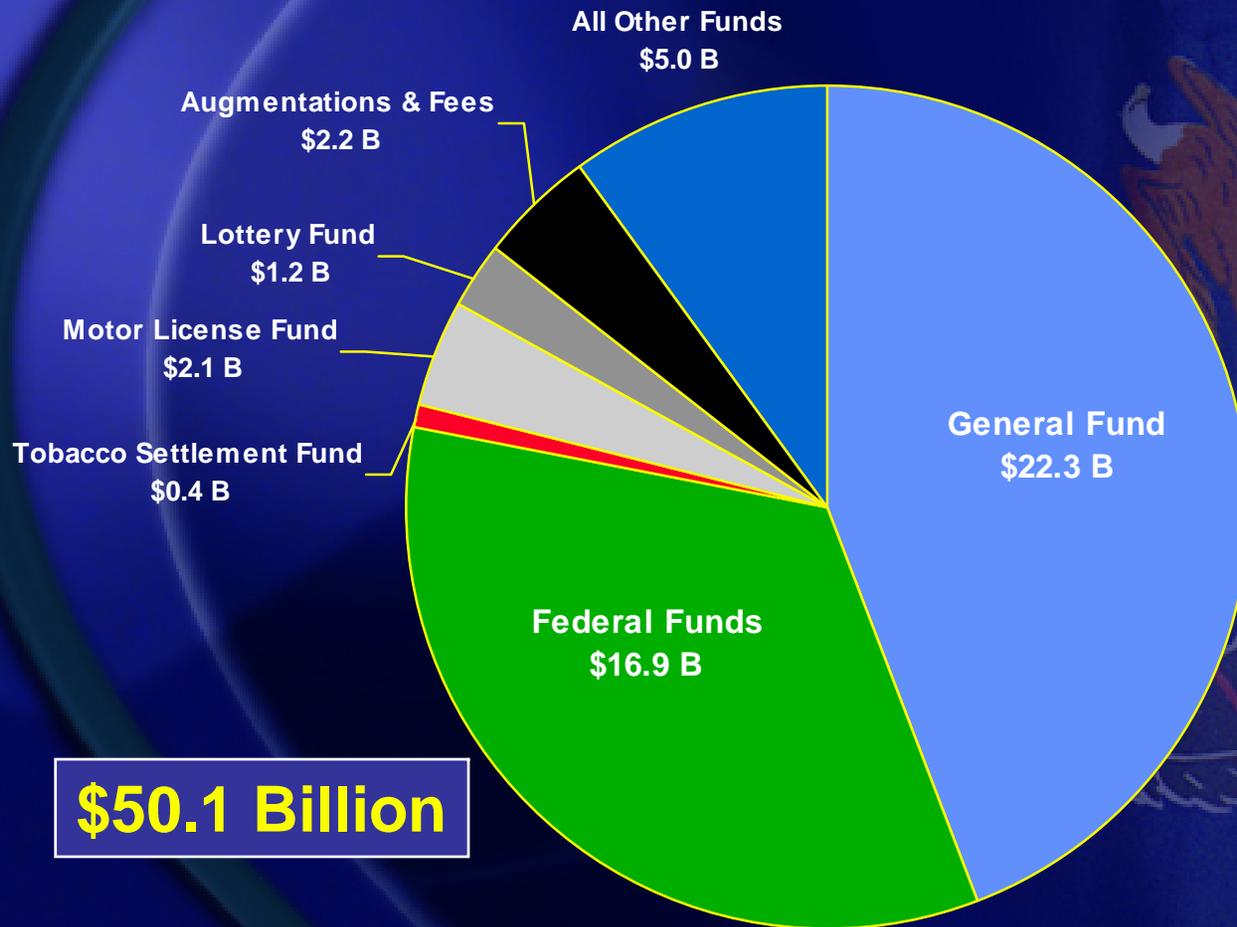


The background of the slide is a dark blue gradient with a large, faint, semi-transparent circular graphic on the left side. On the right side, there is a stylized, semi-transparent version of the Pennsylvania state seal, which features a central shield with a plow and a sheaf of wheat, flanked by two horses and an eagle. A banner at the bottom of the seal reads "LIBERTY".

# **Next Steps to Move Pennsylvania Forward**

# 2004-05 Budget Overview

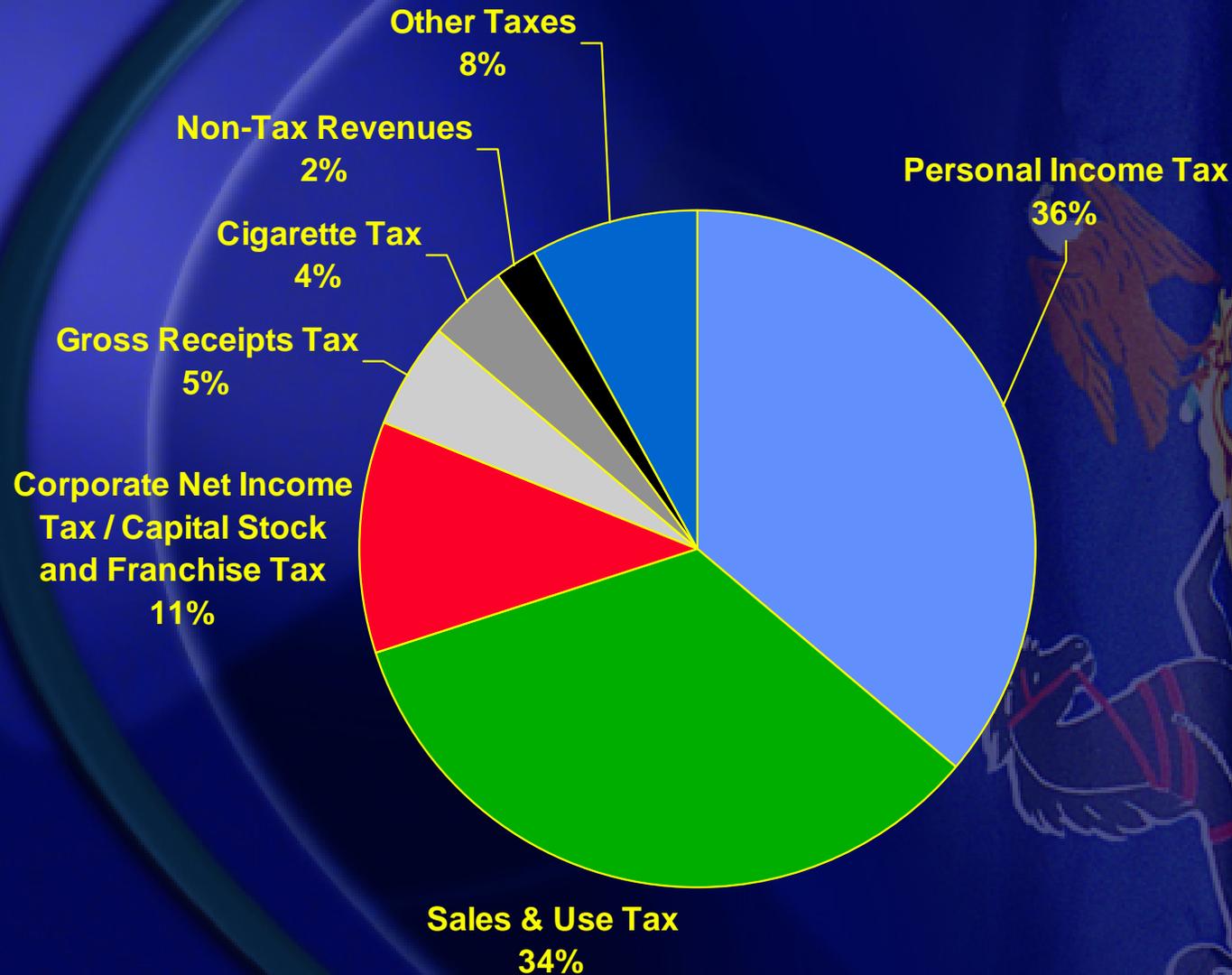
# 2004-05 Total Operating Budget



*The total 2004-05 operating budget, including all Commonwealth funds, is \$50.1 billion. The General Fund represents nearly 45% of this amount.*

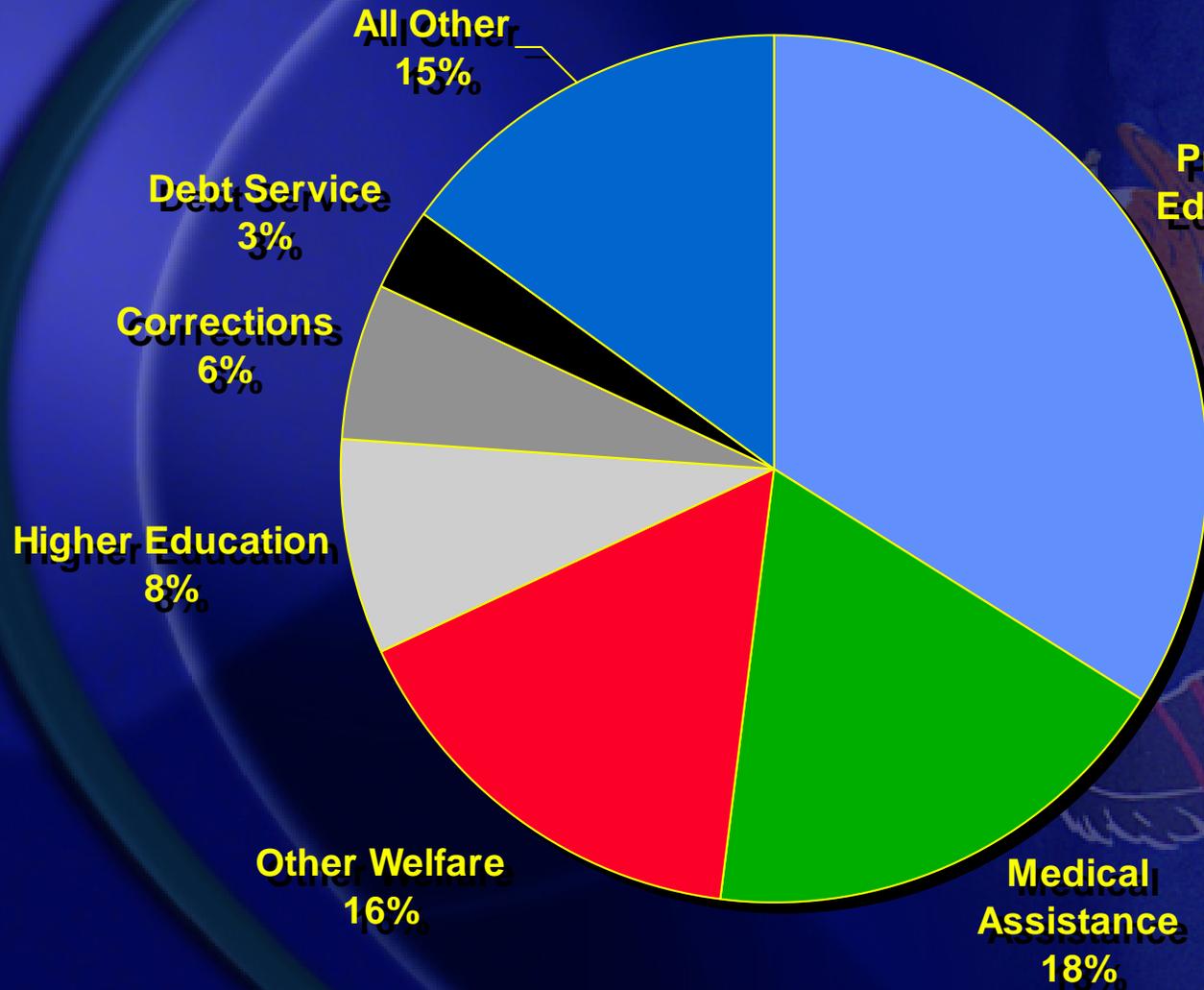
**\$50.1 Billion**

# 2004-05 General Fund Revenue Sources



*More than two-thirds (70%) of General Fund revenues are derived from the Personal Income Tax and the Sales and Use Tax. Due to recent tax code changes, the Gross Receipts Tax and the Cigarette Tax are contributing larger portions to General Fund Revenues.*

# 2004-05 General Fund Expenditures



*Spending on Education (PreK-12 and Higher Ed), Medical Assistance, other Public Welfare programs, Corrections, and Debt Service comprises 85% of total General Fund expenditures.*

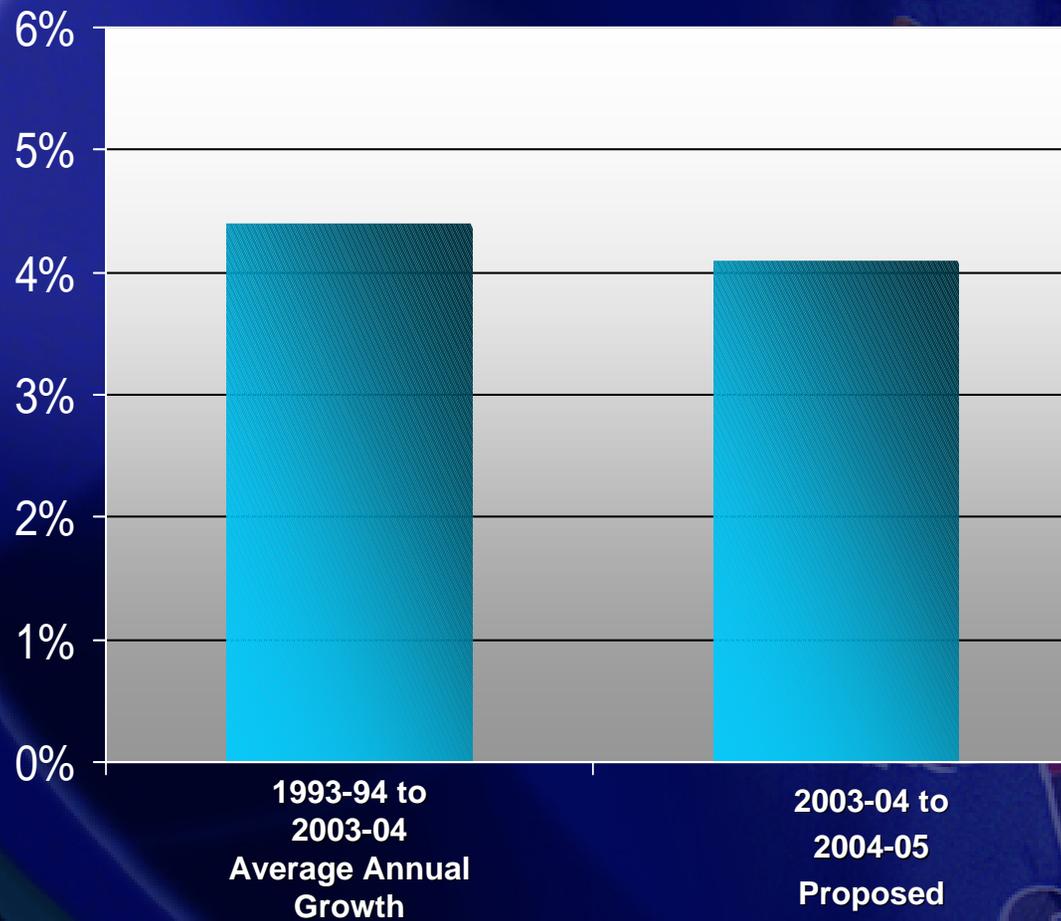
# Governor's 2004-05 Budget General Fund

	<u>2003-04</u>	<u>Millions</u>	<u>2004-05</u>
<b>Beginning Balance</b> .....	\$ 209		\$ 43
<b>Receipts</b> .....	21,234		22,225
<b>Revenue Changes</b> .....	. . . .		68
<hr/>			
<b>Funds Available</b> .....	\$ 21,443		\$ 22,336
<b>Appropriated</b> .....	- 21,462		- 22,711
<b>Lapses</b> .....	77		. . . .
<b>Federal Fiscal Relief</b> .....	. . . .		377
<hr/>			
<b>Preliminary Balance</b> .....	\$ 58		\$ 2
<b>Transfer to Rainy Day Fund</b> .....	-15		- 1
<hr/>			
<b>Ending Balance</b> .....	\$ 43		\$ 1
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# Growth in General Fund Expenditures

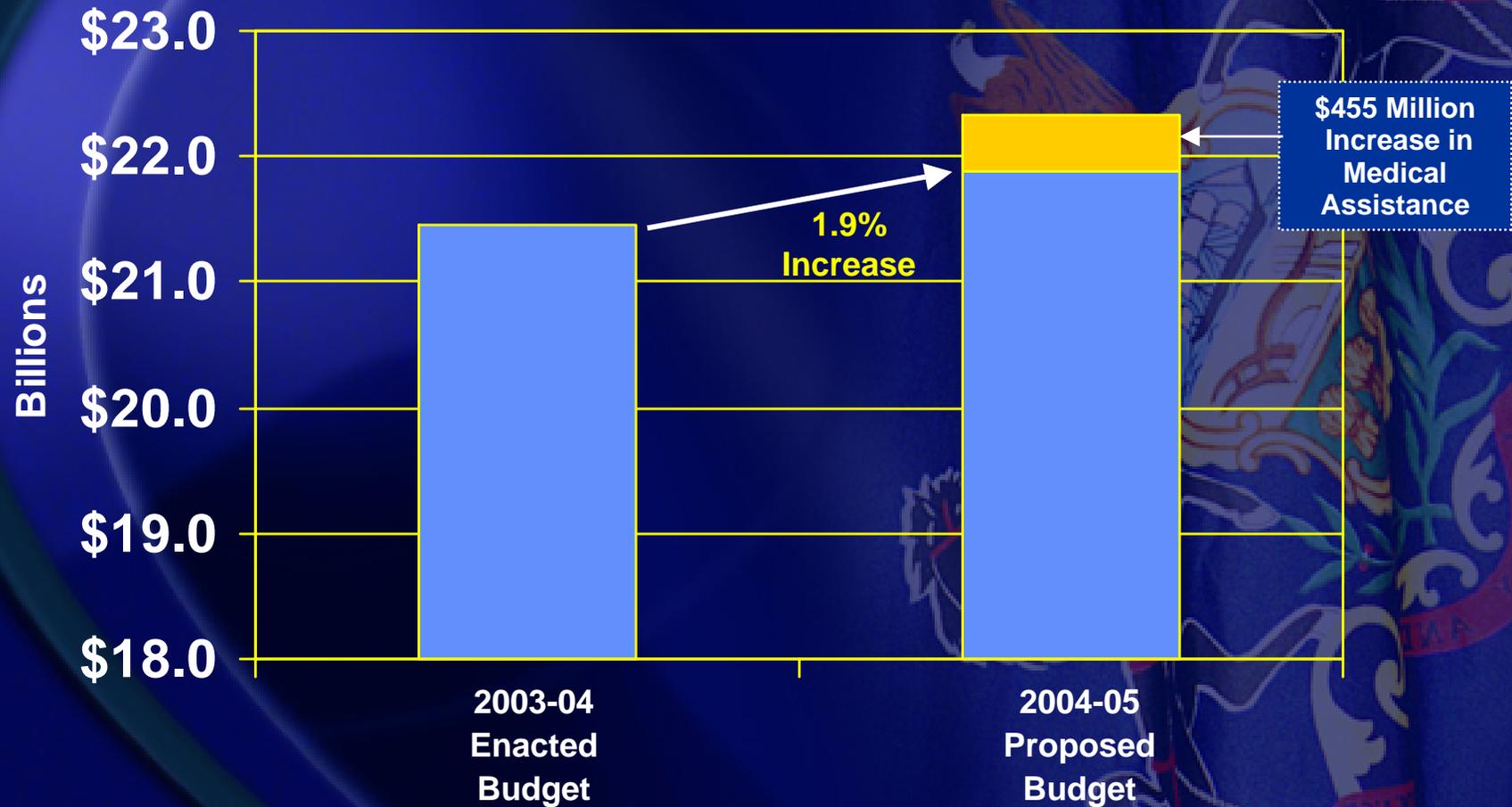
## The 2004-05 Budget

### Compared to Recent Growth Trends



**Percentage Growth Rate**

# Growth in 2004-05 Expenditures With and Without Medical Assistance Increase



# 2004-05 Budget Highlights

# 2003 Student Achievement Levels

## Percent Below Proficient

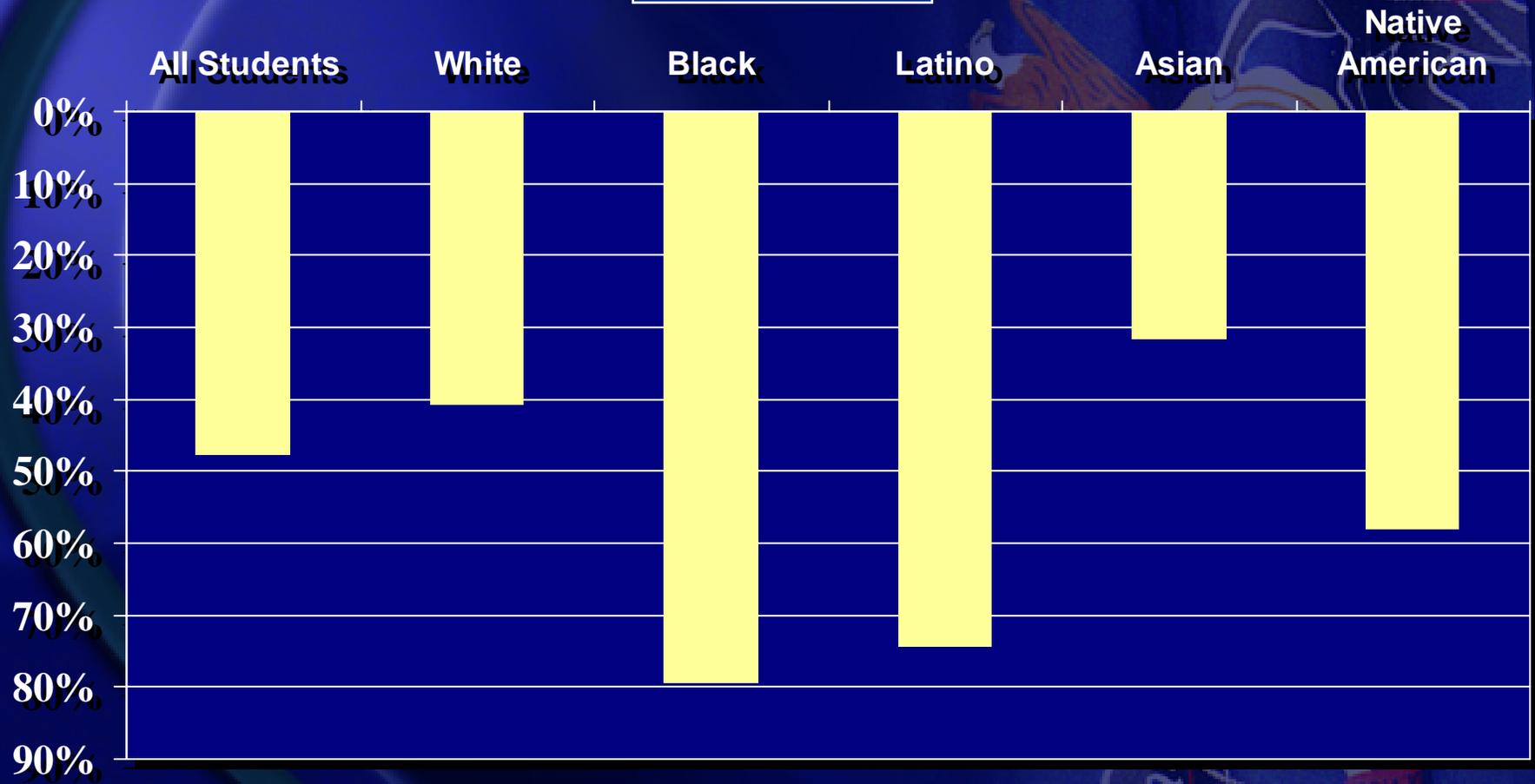
### READING



# 2003 Student Achievement Levels

## Percent Below Proficient

### MATH



# Raising Student Achievement in Pennsylvania

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*Pennsylvania is making smart and aggressive investments in proven educational programs to raise student achievement.*

## **PA ACCOUNTABILITY BLOCK GRANT - \$250 million**

**To attain and maintain academic performance targets**

### **Eligible Uses:**

- High-quality pre-school
- Full-day kindergarten
- Small class size in grades K-3
- Tutoring
- Teacher training
- Science material and equipment
- Incentives to recruit and retain the most qualified teachers where needed the most
- Closing the achievement gap
- Strengthening the link to social and health services

# **Raising Student Achievement in Pennsylvania**

## **Additional Initiatives**

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### **INNOVATIVE TUTORING PROGRAMS**

#### **Educational Assistance Program - \$25 million**

- ~ Targeted to schools with the most severe academic challenges

#### **Classroom PLUS - \$9 million**

- ~ Targeted to students who have received low standardized test results

### **PA FUNDING FOR HEAD START - \$15 million**

- ~ Expanding and enhancing federally funded Head Start program

### **EDUCATIONAL IMPROVEMENT TAX CREDITS FOR PRE-SCHOOL - \$5 million**

- ~ Expansion of pre-school programs by providing a tax credit program for private pre-school scholarships

# Higher Education in the FY2004-05 Budget

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<b>5% increase for the Community Colleges</b> .....	<b>\$ 10.7 M</b>
<b>3% increase for the State System of Higher Education</b> ..	<b>\$ 13.1 M</b>
<b>2.25% increases for the State-Related Universities –</b>	
Penn State University .....	<b>\$ 6.9 M</b>
University of Pittsburgh .....	<b>3.7 M</b>
Temple University .....	<b>3.7 M</b>
Lincoln University .....	<b>0.3 M</b>
	<hr/>
<b>Total Increase – State-Related Universities</b> .....	<b>\$ 14.6 M</b>
<b>2.5% increase for the Pennsylvania Higher Education Assistance Agency’s Grants to Students program</b> .....	<b>\$ 8.7 M</b>

# Community Care Program Increases in the FY2004-05 Budget

*Funding increases will provide for the expansion of home- and community-based services to more Pennsylvanians, including 1,845 additional persons with disabilities and 531 additional persons with mental retardation.*

	<u>\$</u> <u>INCREASE</u>
● Community Mental Retardation .....	\$ 51.9 M
● Community Mental Health .....	\$ 35.1 M
● Services to Persons with Disabilities .....	\$ 16.3 M
● Early Intervention .....	\$ 5.8 M
● Attendant Care .....	\$ 4.0 M

# Public Welfare Programs in the FY2004-05 Budget

*The increase in funding for Medical Assistance will provide services to an additional 57,000 pregnant women, children and older Pennsylvanians in the coming fiscal year.*

## **Funding Increases:**

● Medical Assistance .....	\$ 454.6 M
● Community Care Programs.....	\$ 113.1 M
● Income Support .....	\$ 18.0 M
● Child Welfare .....	\$ 13.8 M

## **Funding Maintained:**

● Behavioral Health Services (Including IGT) .....	\$ 64.3 M
● Human Services Development Fund (including IGT)...	\$ 40.6 M

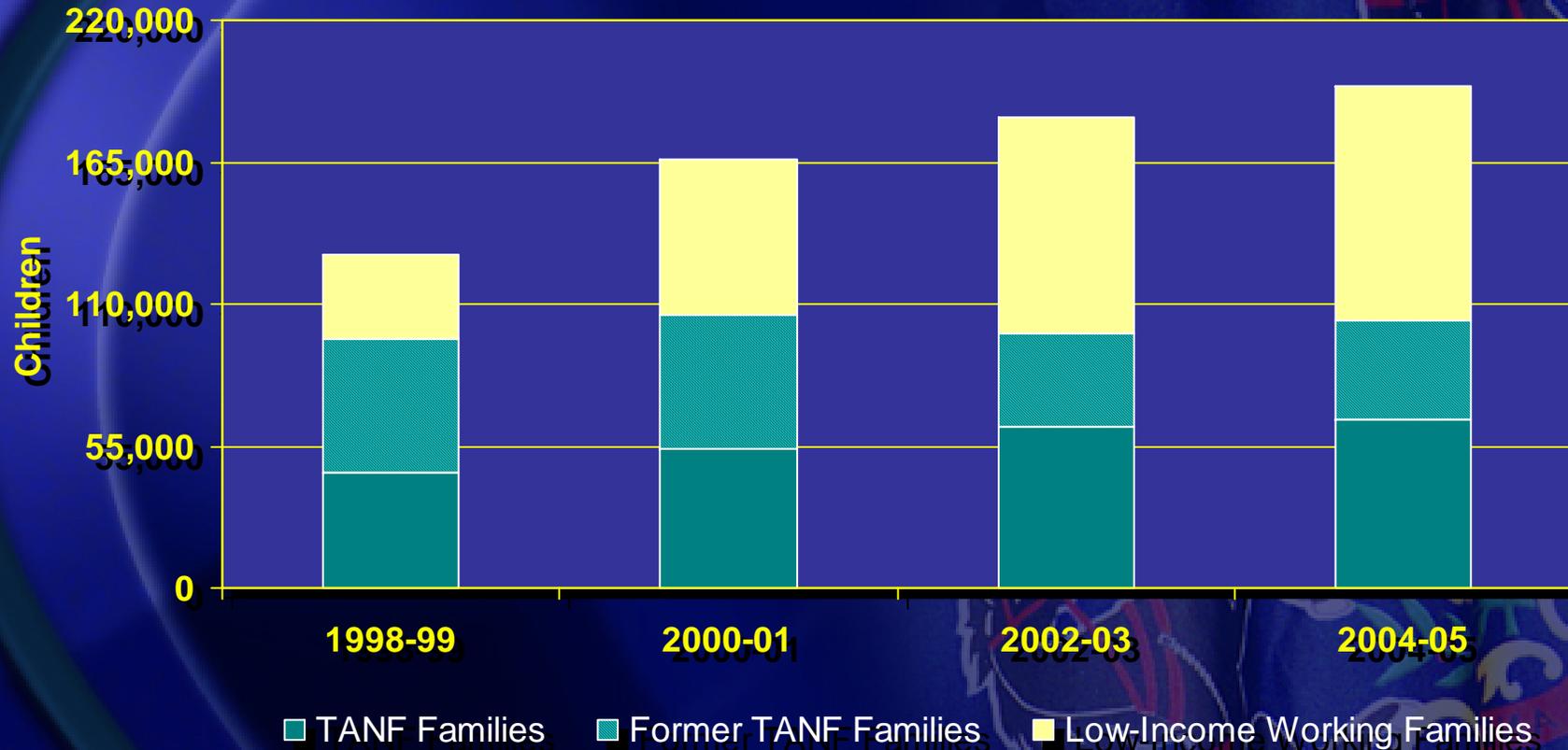
# PA's Medical Assistance Program *Budget Adjustment Alternatives Rejected That Other States Have Implemented*

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<u>ACTION</u>	<u>Number of States</u>
● Impose Pharmacy Controls	43
● Reduce Benefits	17
● Eligibility Cuts	18
● Co-pays	21
● Long-Term Care Reductions	14

Based on: The Kaiser Commission on Medicaid and the Uninsured.

# Child Care Services in FY2004-05 Budget



*In 2004-05, the state child care system will serve an estimated 58,200 more children of low-income working families, compared to 1998-99. This represents an increase of 176%*

# Support for Public Libraries in the FY2004-05 Budget

(In Thousands)

Year	Improvement of Library Services	% Change
1995-96	\$26,190	10.1%
1996-97	\$28,550	9.0%
1997-98	\$29,407	3.0%
1998-99	\$30,289	3.0%
1999-00	\$47,286	56.1%
2000-01	\$62,289	31.7%
2001-02	\$75,289	20.9%
2002-03	\$75,289	0.0%
2003-04	\$47,789	-36.5%
<b>2004-05</b>	<b>\$52,568</b>	<b>10.0%</b>

-100.0%

Pennsylvania will rank 4<sup>th</sup> among all states in per capita funding for public libraries, based on the recommended library funding in the 2004-05 Budget.

Pennsylvania ranks 43<sup>rd</sup> in per capita local funding of public libraries.

*Source: National Center for Education Statistics*

# Mass Transit Operating Assistance in the FY2004-05 Budget

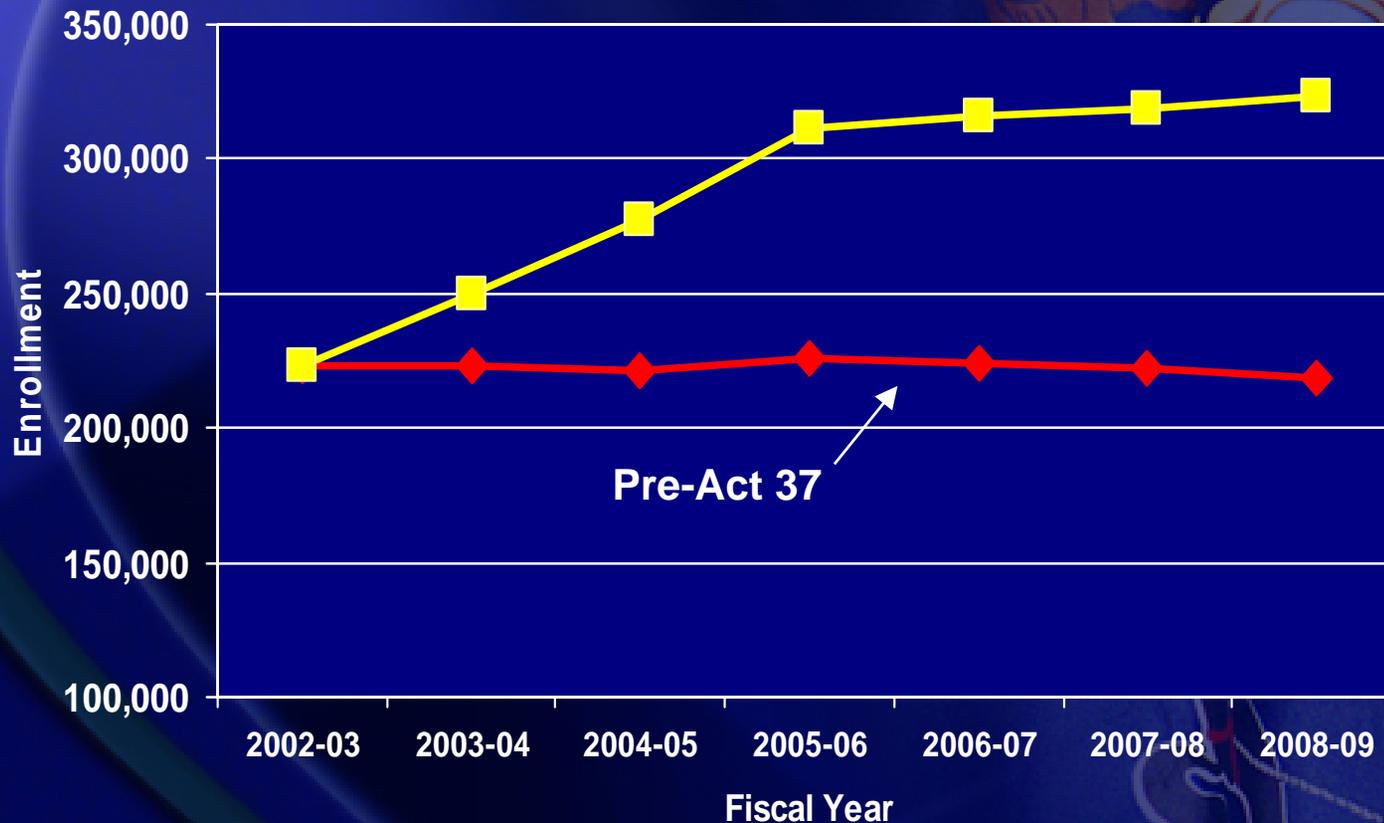
<b>Fiscal Year</b>	<b>Percentage Increase</b>
1995-96	3.1%
1996-97	0.0%
1998-99	0.0%
1999-00	0.0%
2000-01	3.0%
2001-02	0.0%
2002-03	0.0%
2003-04	0.0%
<b>2004-05</b>	<b>3.4%</b>

The 2004-05 budget recommends the largest increase in mass transportation operating assistance since 1995-96.

The 2004-05 budget also includes a \$34 million transfer of sales tax revenue to the Public Transportation Assistance Fund, which provides additional state financial support to mass transit agencies.

# PACE / PACENET Enrollment

*Act 37 of 2003 increased income eligibility limits while implementing cost-saving initiatives in the PACE/PACENET Program. Act 37 will enable 100,000 additional older Pennsylvanians to receive financial assistance to help with the burden of pharmaceutical costs.*



# **MCARE Assessment Abatement**

## ***Providing Relief to Health Care Providers By Reducing Medical Malpractice Insurance Costs***

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- **In 2004-05, the Commonwealth's budget will again allow physicians in the highest risk specialties and nurse midwives to forgo paying an Mcare assessment.**
  - **Family practitioners in rural areas who deliver babies will also receive the assessment abatement.**
- **All other physicians will have 50% of their Mcare bills forgiven.**

# One-Time Revenues Utilized to Balance the 2004-05 General Fund Budget

*The 2004-05 Budget further reduces reliance on one-time revenues from \$658.6 million in 2003-04 to \$377.6 million. Use of one-time revenues has been reduced by nearly two-thirds since 2002-03.*

**Federal Fiscal Relief . . . . . \$ 377.6**

In Millions

# **Administrative and Operational Efficiency Improvements in the FY2004-05 Budget**

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- ✓ **The 2004-05 Budget recommends significant savings to be achieved through managerial and operational efficiencies at the departmental level, including:**
  - Decreasing Reliance on Contracted Staff - \$6.2 million
  - Administrative Consolidation and Reorganization - \$6.2 million
  - Operating Government More Efficiently - \$5.4 million
  - Human Services Efficiencies - \$45.6 million
  
- ✓ **The Office of Management and Productivity is collaborating with agencies to realize additional savings through multi-agency initiatives, including:**
  - General Administration and Telecommunications Savings - \$1 million
  - Savings from Strategic Sourcing - \$19 million
  - Savings from Contract Renegotiations - \$5.5 million

# Other Crucial Unfinished Business



# **Pennsylvania Needs An Economic Stimulus Program**

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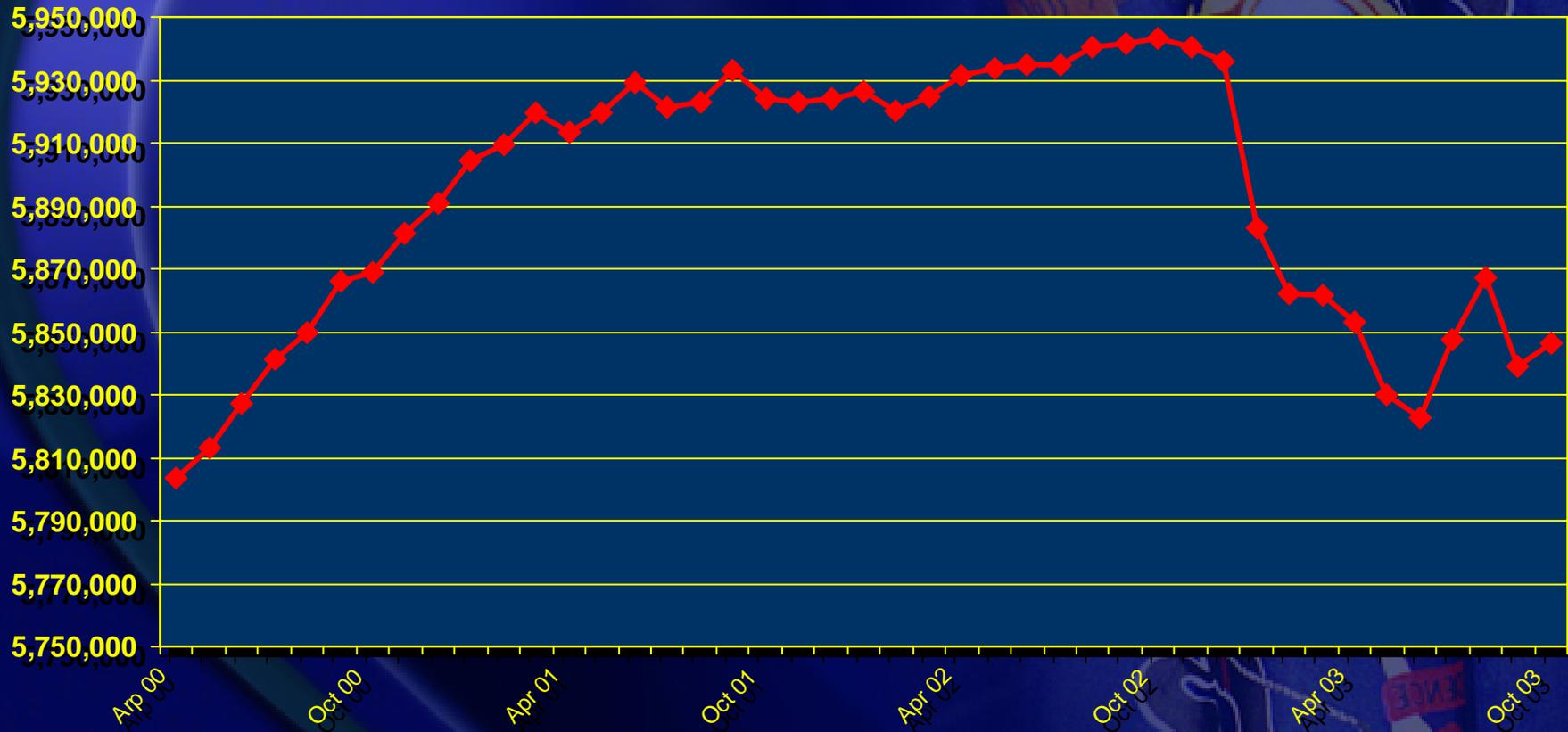
- **Only two states had slower population growth than PA between 1990 and 2000 (West Virginia and North Dakota).**
- **Between 1990 and 2000, PA lost 7.4% of young workers between the ages 25-34, the ninth largest loss in the nation.**
- **Between 1992 and 2002, PA employment grew by only 11.4% compared to 20% in the nation.**
- **Growth in average annual pay also lagged in PA, increasing by only 10.2% from 1991 to 2001 compared to 13.2% nationally.**
- **PA ranked 44<sup>th</sup> for new business starts and growth in 2001.**

*“Back to Prosperity: A Competitive Agenda for Renewing Pennsylvania”*

*Brookings Institute, Dec. 2003.*

# PA Labor Force and Employment

*PA employment is down 1.2% since January '03. Most reductions in PA's unemployment rate seen since Feb '03 are the result of a smaller labor force rather than actual job creation. Current forecasts indicate that PA's labor force will not return to its prior high of 6.3 million any sooner than December 2005.*



\* Labor Force indicates the combination of employed persons and those unemployed persons actively seeking employment.

# Pennsylvania's Economic Stimulus Program

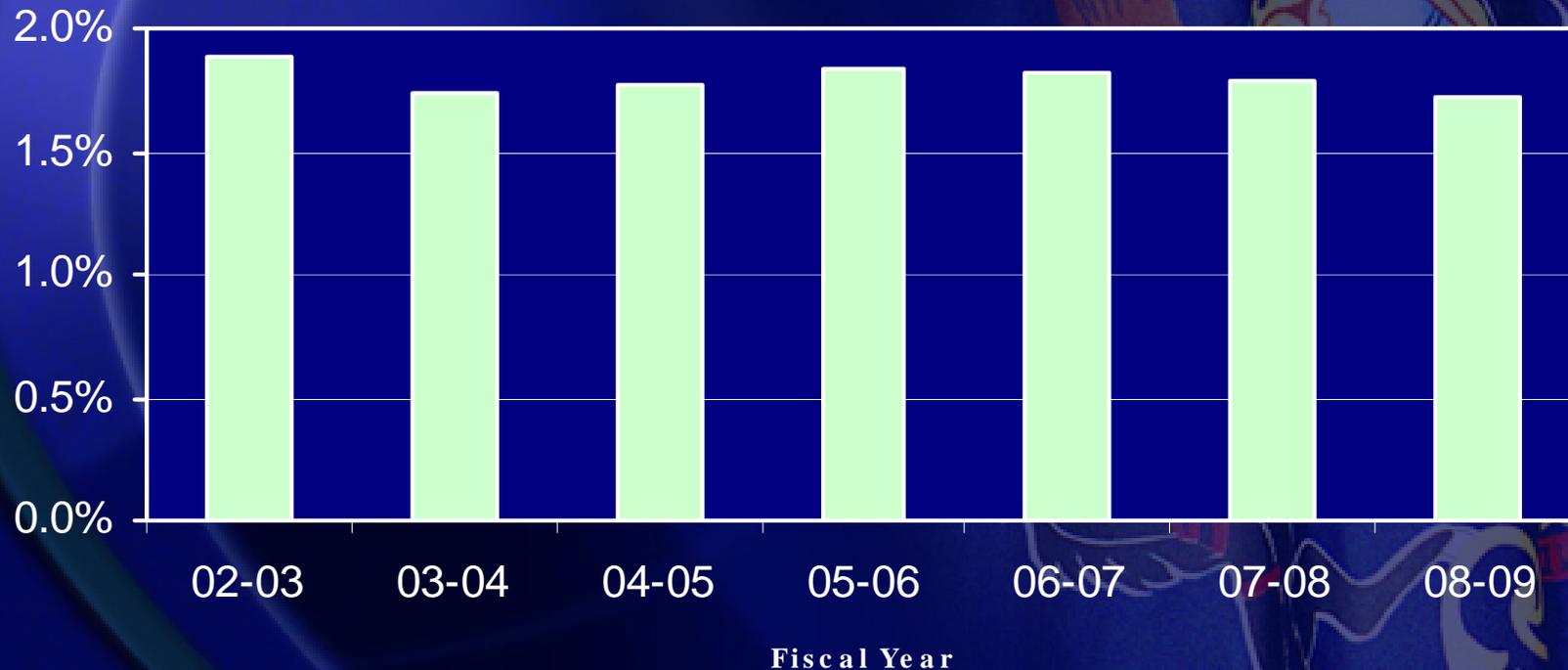
*The Economic Stimulus Program aims to make available \$2.0 billion in state grants, loans and guarantees over the next three years and leverage an additional \$3.1 billion in private economic development investment in order to “jumpstart” Pennsylvania’s economy and restore our Commonwealth to economic competitiveness.*

## **Bond-Funded Components of the Economic Stimulus Program:**

<b>Pennsylvania Business in Our Sites</b> .....	<b>\$ 300 M</b>
<b>Redevelopment Assistance</b> .....	<b>\$ 640 M</b>
<b>New Ventures Investment Guarantee Fund</b> .....	<b>\$ 250 M</b>
<b>Venture Capital Loans</b> .....	<b>\$ 60 M</b>
<b>Water and Sewer Systems</b> .....	<b>\$ 250 M</b>
<b>Real Estate Construction Fund</b> .....	<b>\$ 150 M</b>
<b>Equipment and Working Capital Assistance:</b>	
<b>Core Industries Program</b> .....	<b>\$ 50 M</b>
<b>Secondary Stage Loan Guarantee Program</b> .....	<b>\$ 50 M</b>
<b>Handheld pharmaceutical devices at hospitals</b> .....	<b>\$ 25 M</b>
<b>First Industries: Agriculture and Tourism</b> .....	<b>\$ 150 M</b>
<b>Commonwealth Tax Increment Financing (TIF)</b>	
<b>Loan Guarantee Fund</b> .....	<b>\$ 100 M</b>

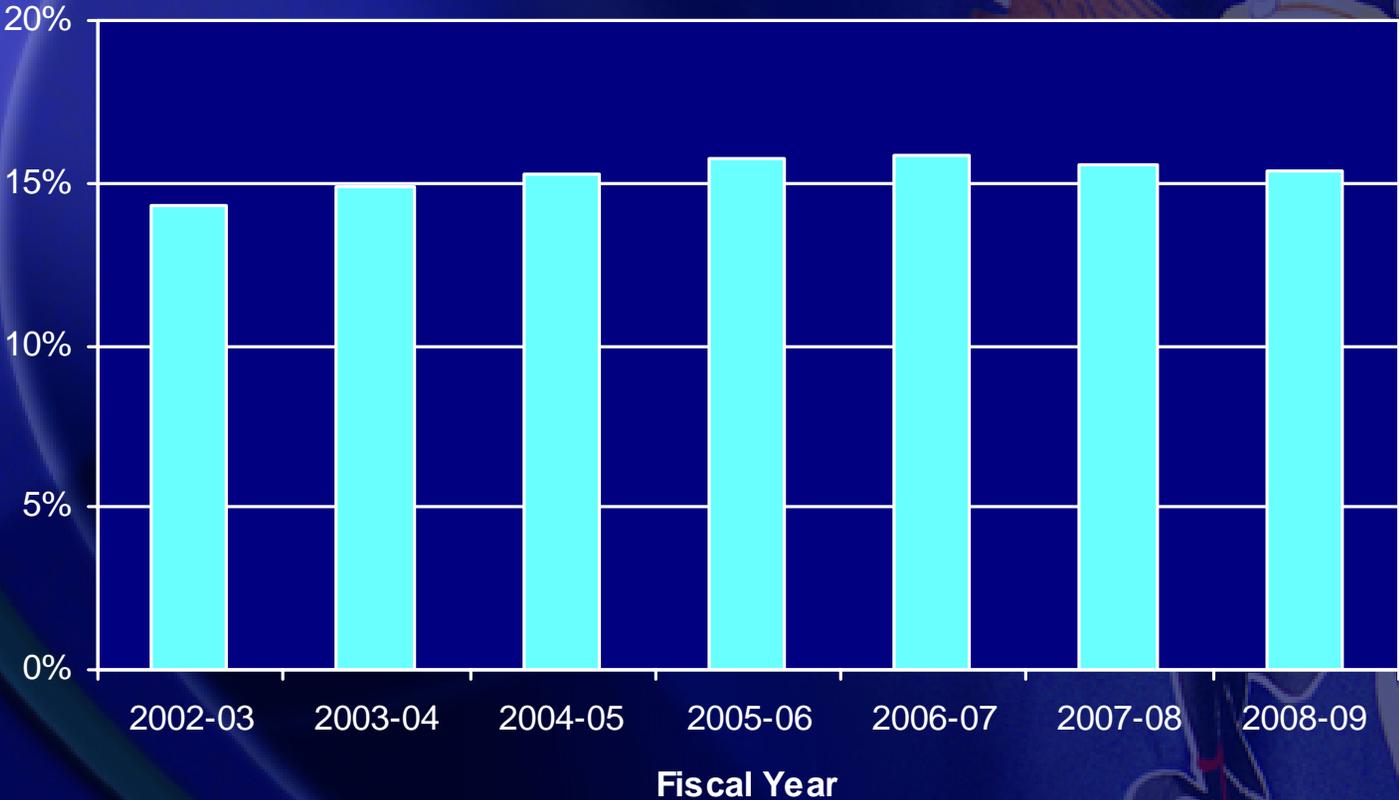
# General Obligation Bond and Lease Rental Debt as a Percent of Personal Income

*Growing personal income keeps the planned bond issuance affordable.*



# Capital Budget Debt as a Percent of the Debt Limit

*Annual debt issuance levels peaked in 2002-03 at \$1.2 billion. Debt outstanding will remain relatively constant from 2003-04 through 2008-09 due in part to the need to issue at least \$900 million in debt for capital projects that were committed to prior to 2003.*



# Pennsylvania Can Invest More In Its Future



*Moody's Investors Service's "2003 State Debt Medians" report showed that Pennsylvania's 2002 net tax-supported debt per capita ranked 22nd among the states. That means that the Commonwealth has room to borrow responsibly to invest in Pennsylvania's future.*

Source: Moody's Investors Service

# Pennsylvania's Economic Stimulus Program

## **General Fund Components:**

### **Keystone Innovation Zones:**

Tax Credits (beginning in 2005-06) . . . . .	\$ 25 M
University tech transfer / intellectual property (2004-05 through 2005-06). . . . .	\$ 10 M
Expanded Research and Development Tax Credits (2004-05) . . . . .	\$ 30 M
(2005-06) . . . . .	\$ 40 M
Transfer to PA Economic Development Financing Auth .	\$ 29 M
Expanded Main Street Program . . . . .	\$ 7 M
New Elm Street Program . . . . .	\$ 7 M

### **Other:**

Pennsylvania Section 108 Initiative (Federal loan pool) . .	\$ 288 M
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# **Pennsylvania Needs Property Tax Relief**

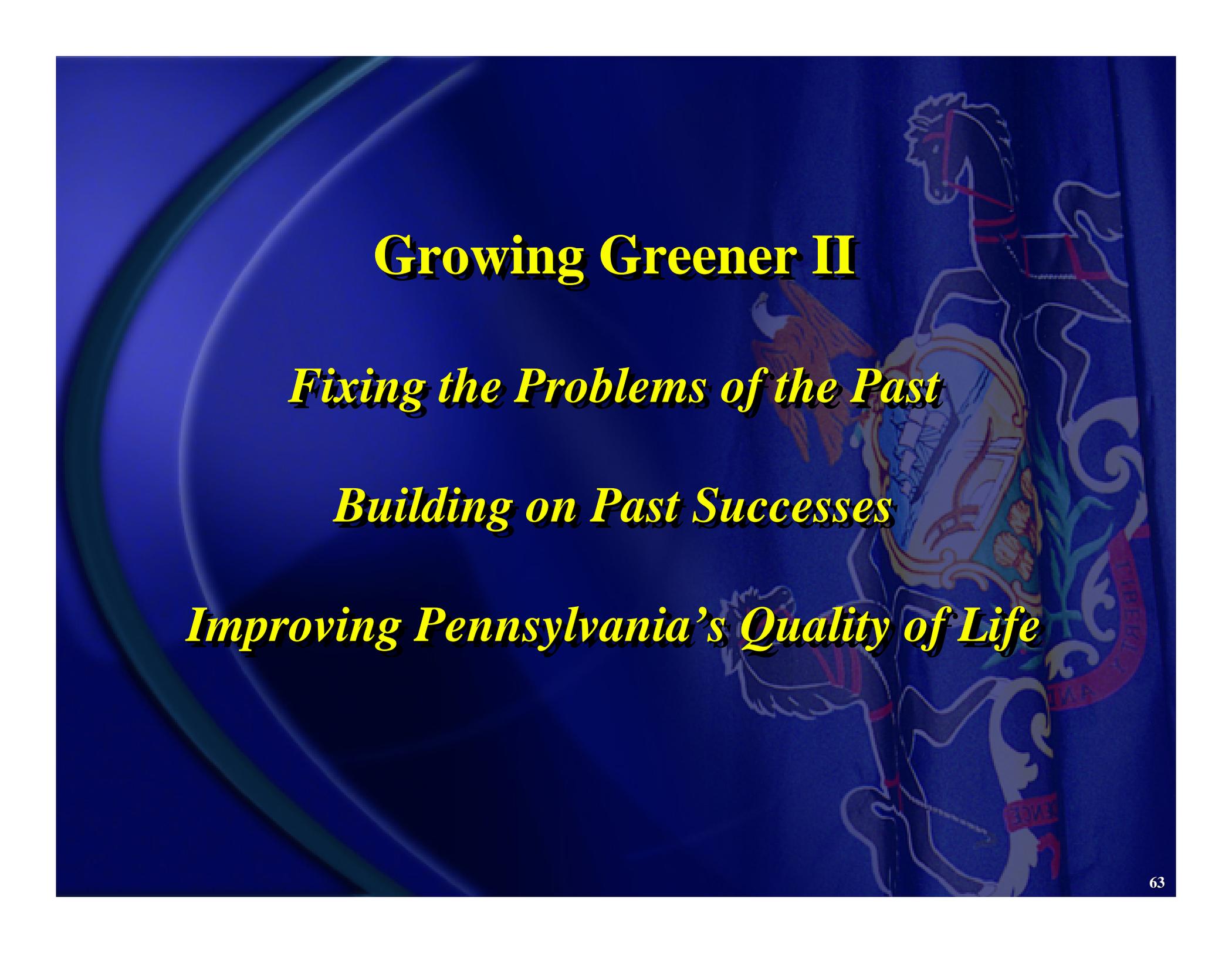
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- Pennsylvania homeowners have been hit hard by repeated property tax increases over the past decade. Nearly 9 in 10 school districts increased local taxes by more than 25% over the past decade. More than half increased their local taxes by at least 50%. Forty-two school districts doubled their local taxes.
- The Commonwealth's share of public school funding has declined to an all-time low of 34% from a one-time high of 50%.
- Local property taxes have increased to fill the school funding gap, but have not been able to generate sufficient tax revenue to adequately fund schools and make up for the declining State share of public education costs.

# Relieving the Property Tax Burden

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- The Rendell Administration wants to ensure substantial local tax relief by authorizing a limited expansion in gaming to fund property tax relief for homeowners across the Commonwealth and wage tax relief for residents of Philadelphia.
- Every school district will be guaranteed at least a minimum local tax reduction, and most would receive far more – up to a maximum set in law.
- This proposal will ultimately increase State aid to school districts by \$1 billion.
- School districts would have the option to further reduce local property taxes by replacing them with local income taxes, thereby improving equity, predictability and balance in local tax structure.
- School districts would be required to cut local property taxes by the exact amount of new State funding received – a dollar for dollar exchange.

The background of the slide is a dark blue color. On the left side, there is a large, stylized globe with a green and blue color scheme. On the right side, there is a faint, light-colored version of the Seal of the Commonwealth of Pennsylvania, which depicts a horse and a plow. The text is centered and written in a yellow, bold, serif font with a black outline.

# **Growing Greener II**

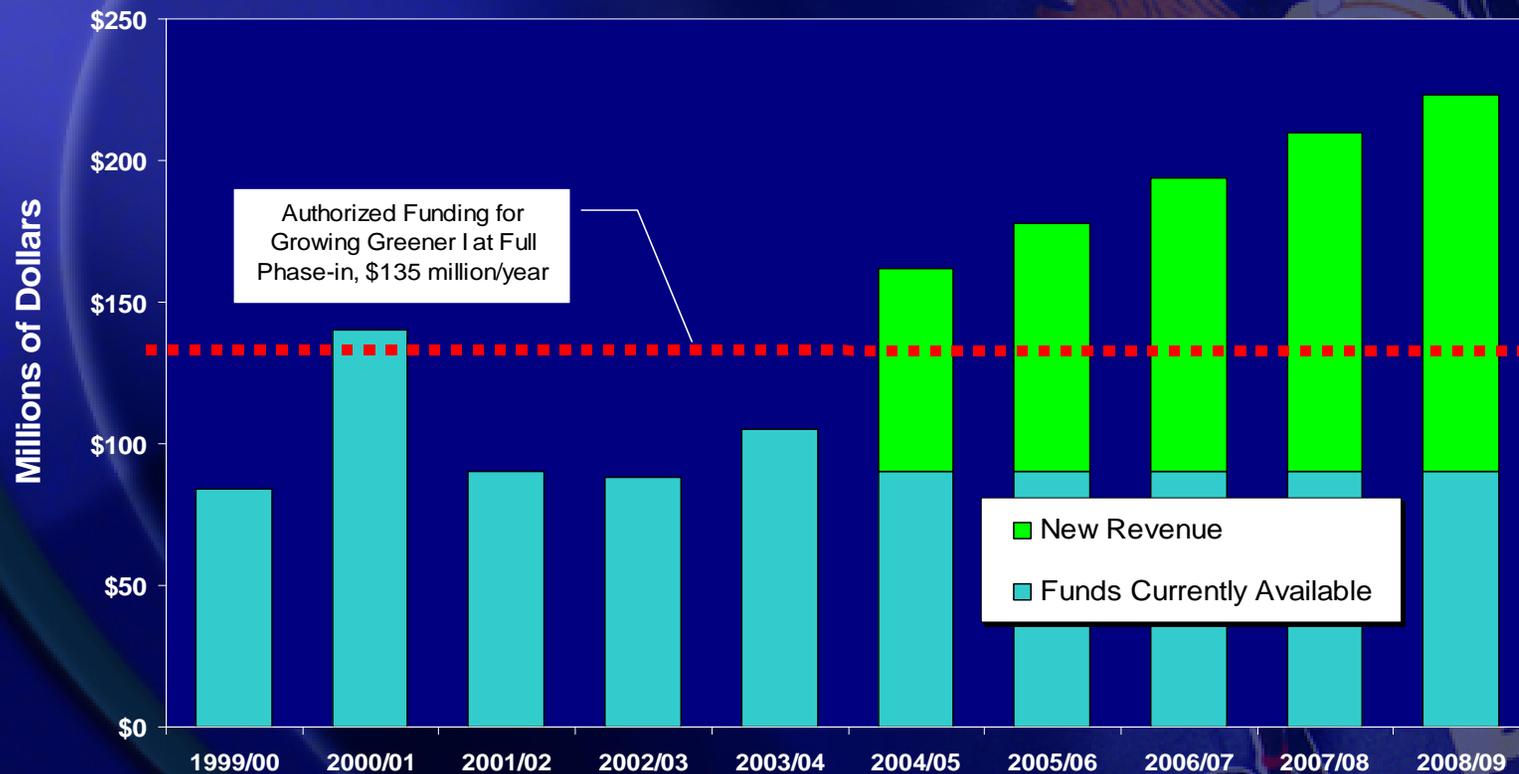
***Fixing the Problems of the Past***

***Building on Past Successes***

***Improving Pennsylvania's Quality of Life***

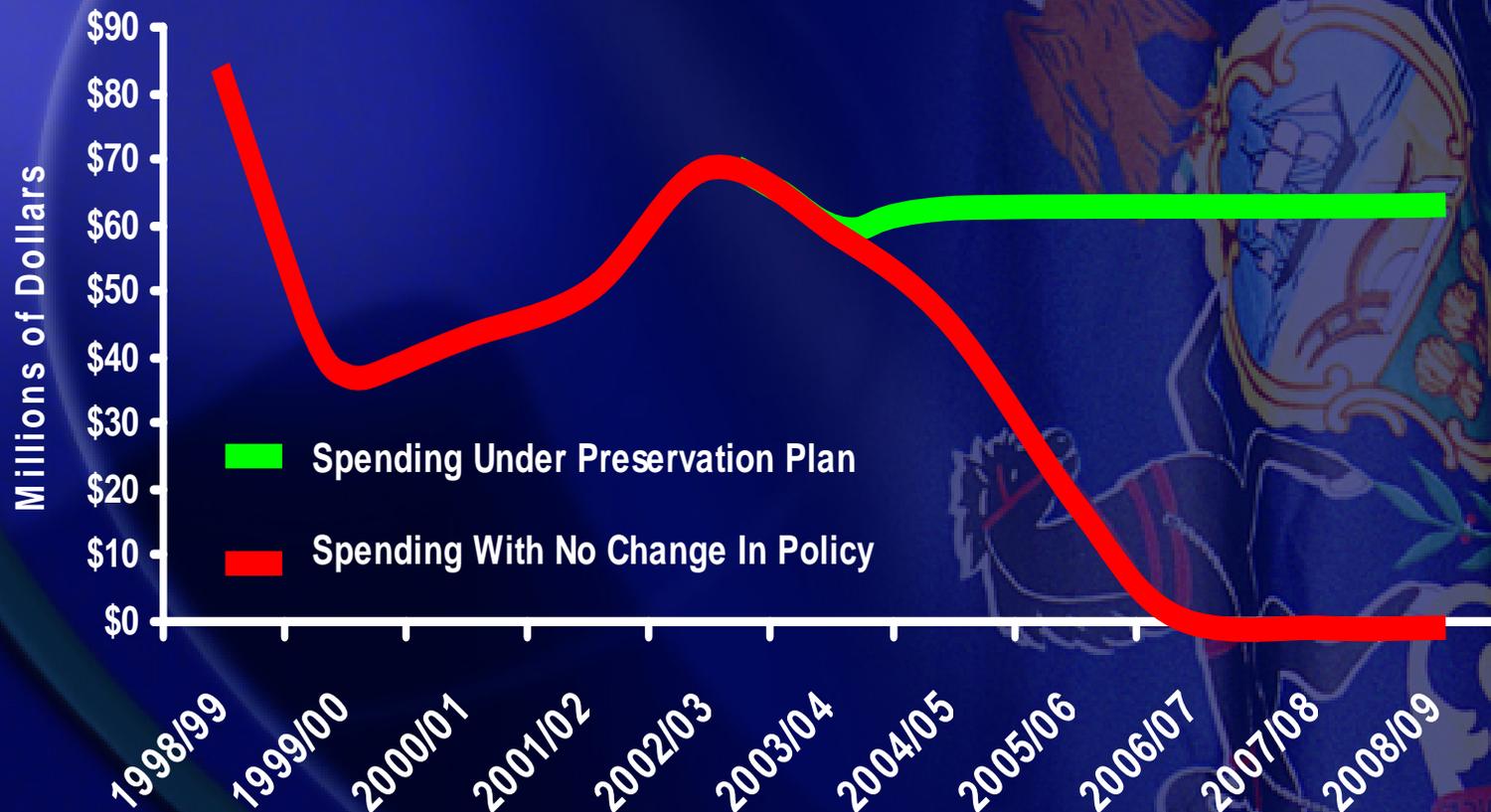
# Growing Greener II

## Will Prevent Growing Greener Program Cuts and Provide Funding for Needed Program Expansion



# Hazardous Site Cleanup will Stop Without New Revenue

## HSCF Preservation Plan vs. No Action



# Growing Greener II

State Funds  
(Dollar Amounts in Thousands)

**2004-05** **2005-06**

## Sources:

### General Fund Revenues:

Tipping Fee Increase .....	\$ 63,000	\$ 84,000
Residual Waste Fee .....	<u>7,000</u>	<u>28,000</u>

General Fund Revenues	\$ 70,000	\$ 112,000
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### Environmental Stewardship Fund Revenues:

Tipping Fee Increase .....	\$ 21,000	\$ 21,000
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Total Growing Greener II Revenues .....	<u>\$ 91,000</u>	<u>\$ 133,000</u>
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## Uses:

### Environmental Stewardship Fund:

Maintain Program Levels .....	\$ 21,000	\$ 21,000
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### General Fund:

Debt Service for Growing Greener II Bond Issue .....	2,330	18,151
Historic Preservation Tax Credit .....	11,500	11,500
Transfer to Recycling Fund .....	25,000	25,000
DCED - Center for Local Government Services .....	7,500	7,500
Transfer to Hazardous Sites Cleanup Fund .....	19,000	45,200
DGS - Energy Costs-Increased Use of Green Energy .....	2,000	2,000
Green Sales Tax Holiday .....	<u>2,600</u>	<u>2,600</u>

Total General Fund Uses .....	\$ 69,930	\$ 111,951
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Total Growing Greener II Uses .....	<u>\$ 90,930</u>	<u>\$ 132,951</u>
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Available Balance	\$ 70	\$ 49
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## Growing Greener II Uses

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- **Protects Existing Growing Greener Programs:** Provides an additional \$21 M for existing programs, preventing reductions.
- **Enhances Growing Greener with \$800 M Growing Greener Bond Issue:** Funds would be spent over four years on parks, open space and farmland (\$330 M), environmental cleanup (\$300 M) and revitalization of older communities (\$170 M)
- **Historic Preservation Tax Credits:** \$11.5 M
- **Increased support for Local Recycling Programs:** \$25 M
- **Increased support for Land use/Growth Planning:** \$7.5 M
- **Commonwealth's Green Energy purchase increased to 20%**
- **Twice-per-year Green Tag Sales Tax Holiday:** \$2.6 M
- **Other Funds: Home Town Streets Program.** \$200 M from PennDOT capital plan over next four years.

# Hazardous Sites Cleanup Fund Preservation Plan

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	(Dollar Amounts in Thousands)	
	2004-05	2005-06
Revenue from Toxics Release Fee	\$ 20,400	\$ 20,400
Transfer from General Fund	\$ 19,000	\$ 45,200
<b>Revenues for Preservation Plan</b>	<b>\$ 39,400</b>	<b>\$ 65,600</b>

A \$2 million annual cap would be imposed on the toxic release fee for any one company and a \$5 million annual cap would be imposed on the combined total of the toxics release fee and the new residual waste fee for any one company.

# Growing Greener II

## Fee Proposals

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### **New Waste Tipping Fee (\$5 per ton)**

With the new fee included, disposal costs at PA landfills will generally be in the \$50-\$60 per ton range, slightly below average disposal costs in New York and New Jersey of \$60-\$70 per ton.

This fee would be broadened to cover currently exempt residual waste at \$4 per ton.

### **Hazardous Sites Cleanup Fund Preservation Plan (\$0.15 per pound on Toxic Release Inventory emissions)**

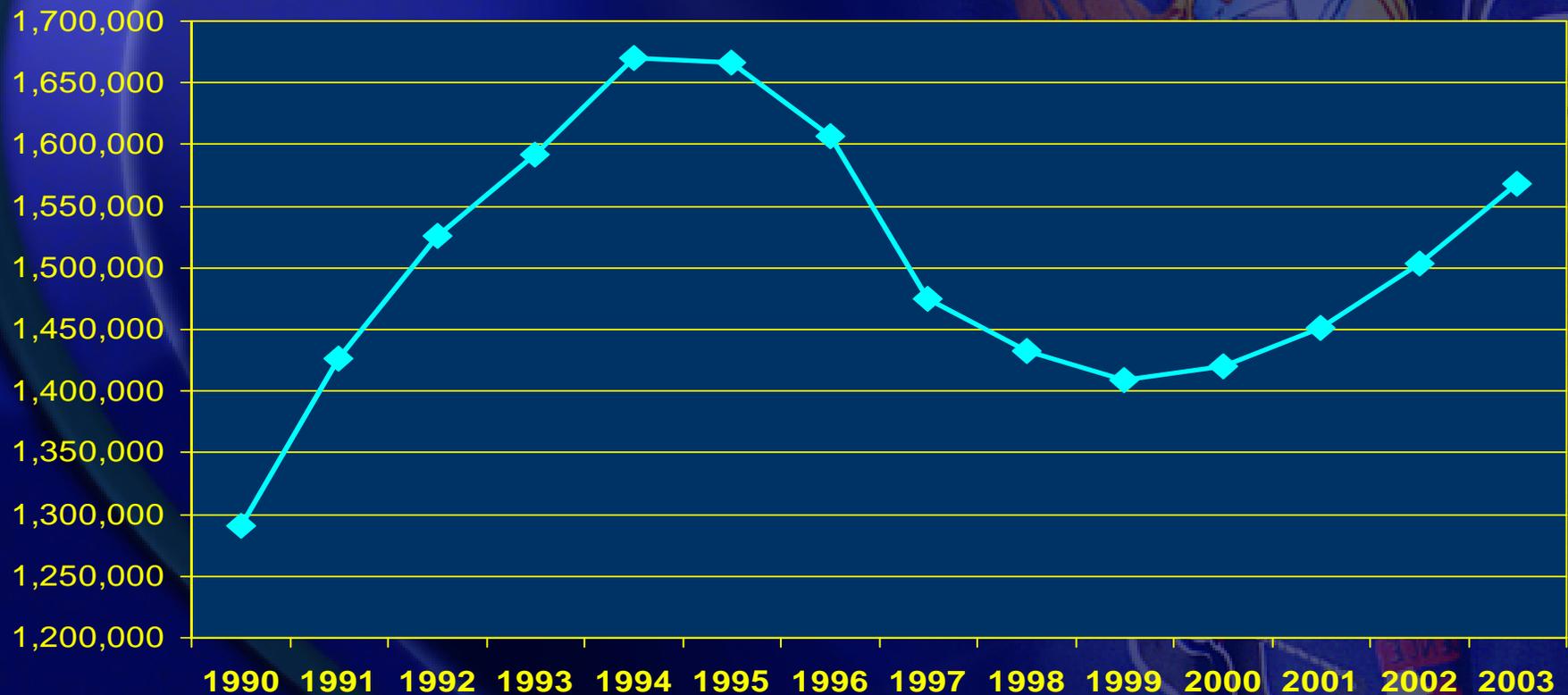
At least 13 other states assess toxic emissions fees, some assessed on a per chemical basis and others on emissions levels.

# Challenges Ahead



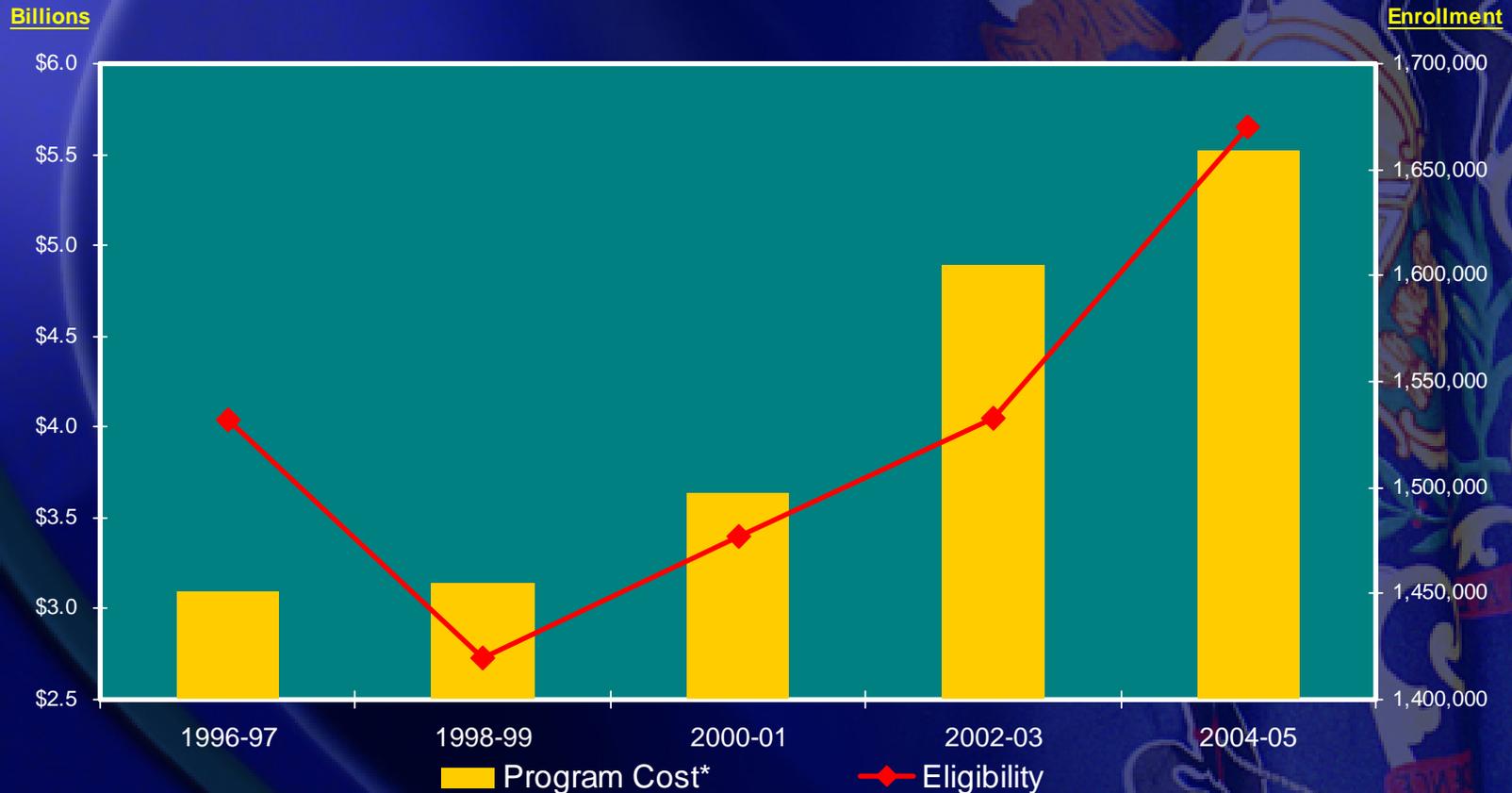
# Medical Assistance Eligibility History

*Change in the number of participants in the Medical Assistance program is closely related to overall economic conditions and the growth in the elderly population (for the long term care portion of MA). The recent upward trend in Medical Assistance eligibility can be expected to continue into the future as changes in MA enrollment tend to lag behind changes in the overall economy. For example, eligibility continued to trend upward in 1993 and 1994 well after the economy had recovered from the recession earlier in the decade.*



# Medical Assistance Program

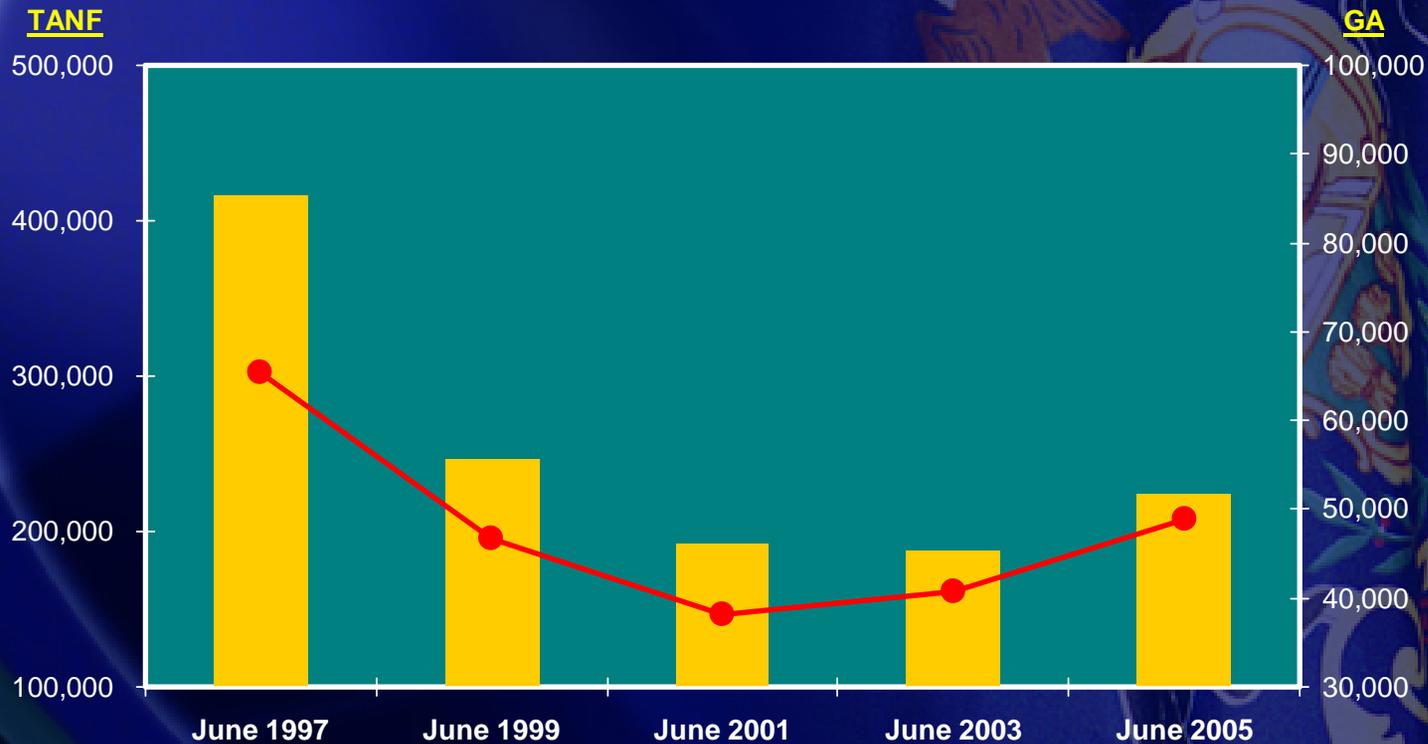
*Medical Assistance caseloads and costs are projected to continue to trend upward in 2004-05. The most expensive MA clients are people with disabilities and older Pennsylvanians.*



# TANF Cash Grants

(Caseload)

*The Cash Assistance caseload dropped significantly in the late 1990's following the enactment of welfare reform but is now resuming a growth trend for both families that receive Temporary Assistance to Needy Families support and general assistance clients.*

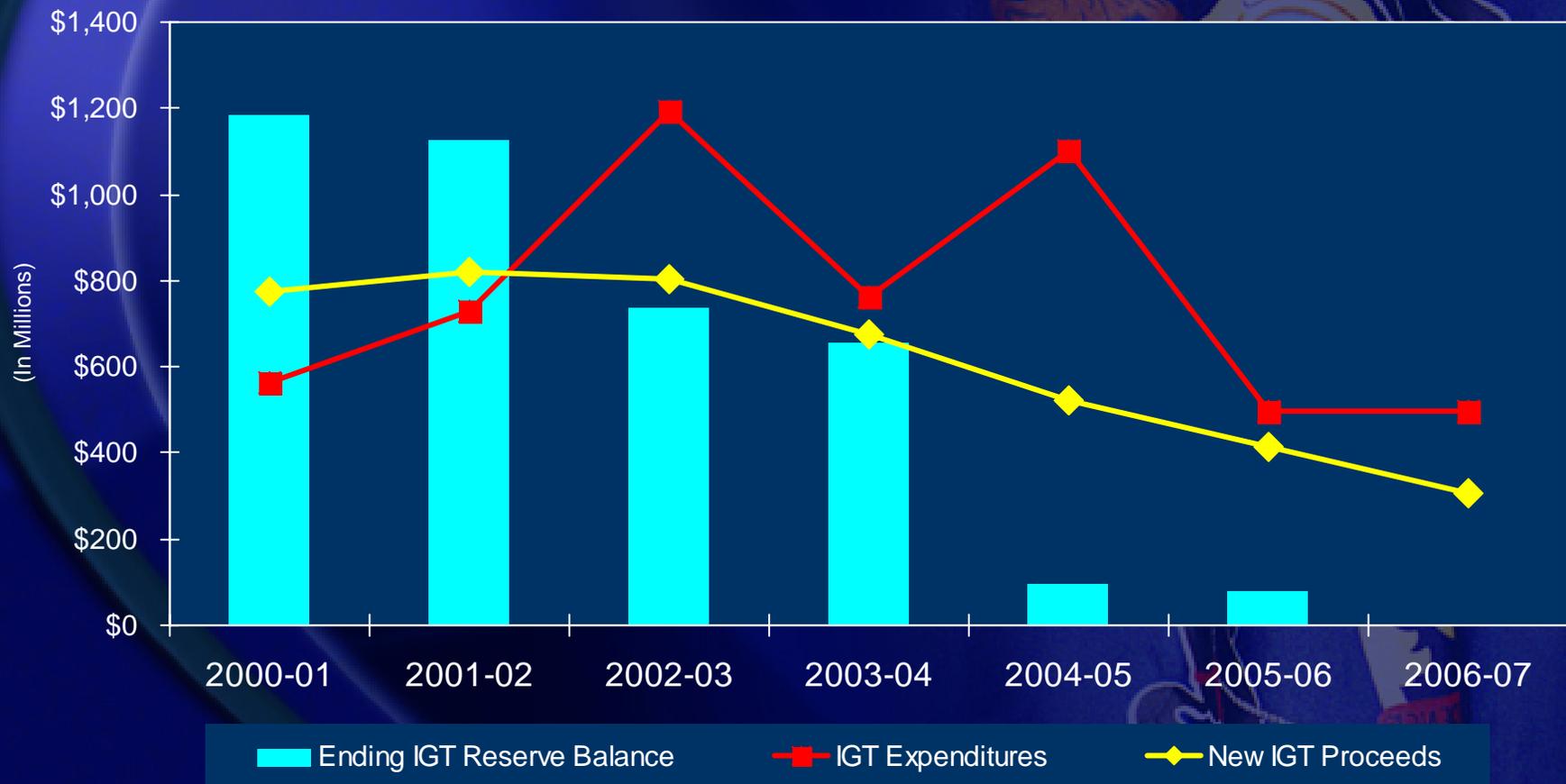


■ Temporary Assistance to Needy Families (TANF) Recipients

● General Assistance (GA) Recipients

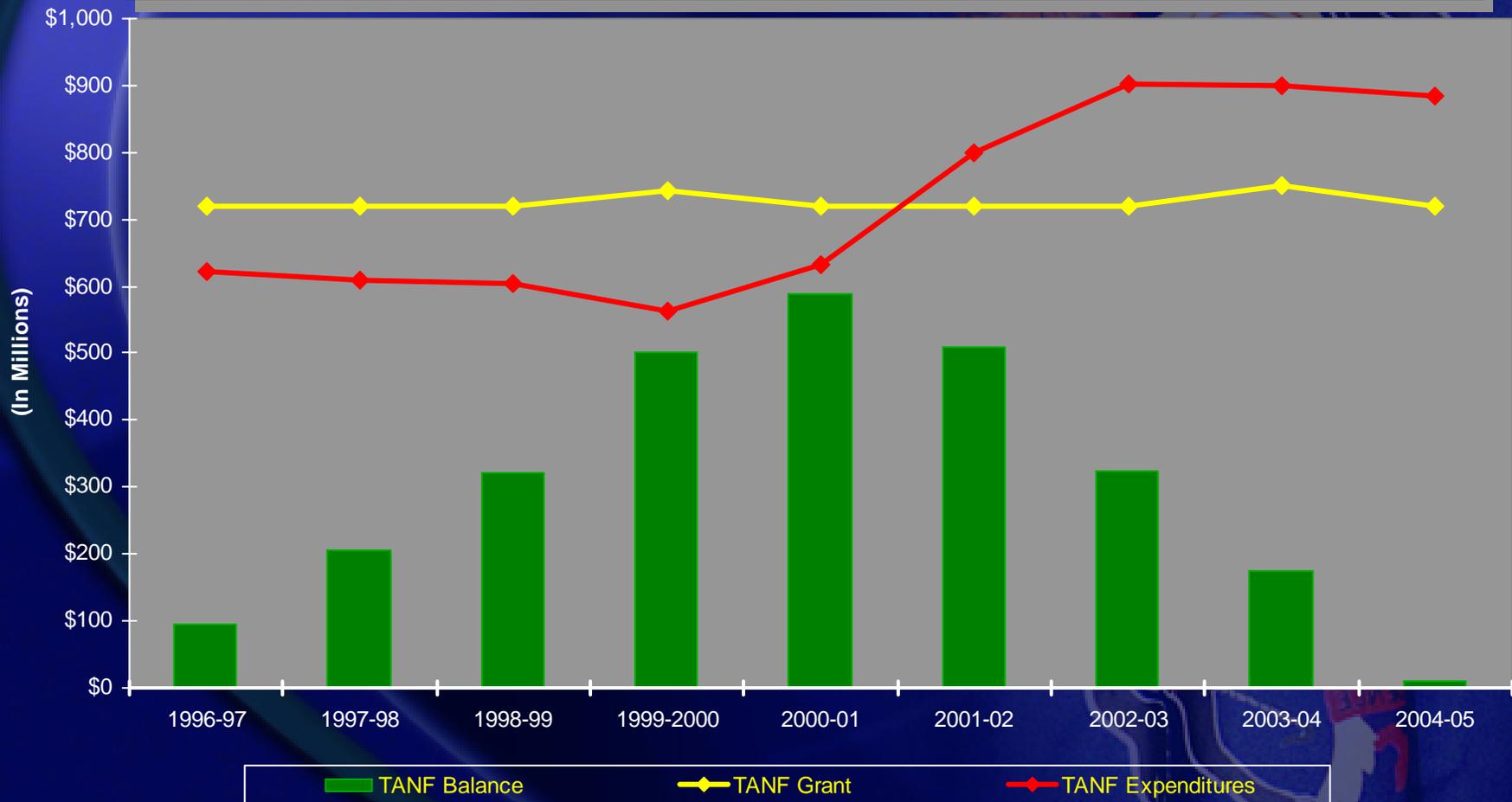
# Intergovernmental Transfer Funds

*The Commonwealth's capacity to use Intergovernmental Transfer (IGT) funds to offset General Fund spending requirements will significantly diminish in future years as new IGT proceeds are phased out and the existing IGT reserve balance is depleted.*



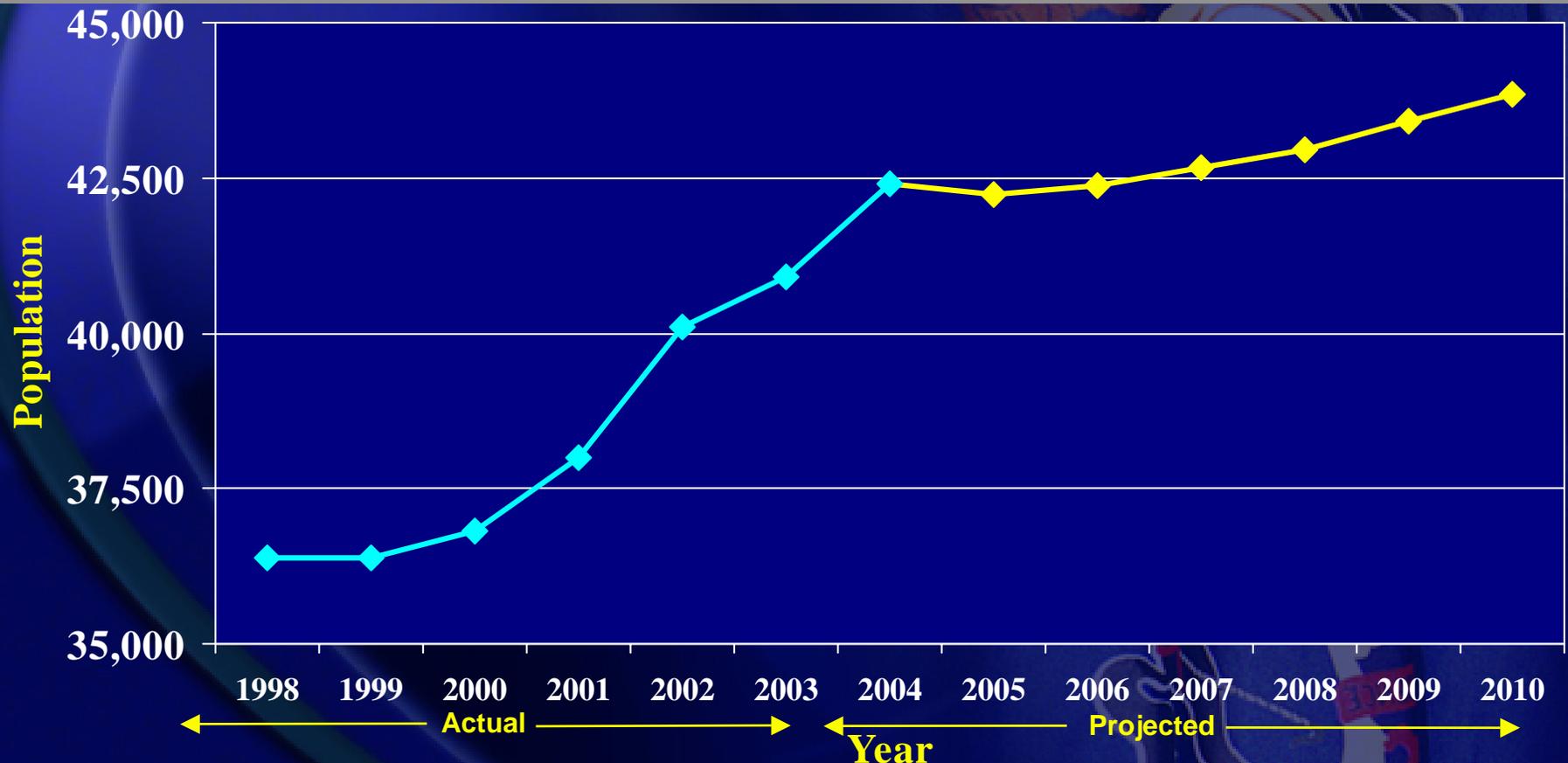
# Federal Temporary Assistance to Needy Families

When the Temporary Assistance to Needy Families (TANF) program began, the Commonwealth's annual TANF expenditures were less than the annual TANF grant, resulting in the build-up of a significant reserve balance. In recent years that trend has been reversed, as annual expenditures have exceeded the annual grant amount, causing the reserve balance to be nearly eliminated. Future TANF expenditures will have to be decreased to keep TANF expenditures in balance with the annual TANF grant level.



# Department of Corrections Inmate Population Growth Actual and Projected

*Inmate population growth has increased steadily in recent years and is projected to continue to increase in the future, but more slowly. Since 1998, non-violent offenders entering State Correctional Institutions have increased from 52% to 65% of all new commitments. Should population growth exceed current estimates, the Corrections budget will have to be adjusted.*



# U.S. and PA Employment Growth

## Recent Year over Year Trends

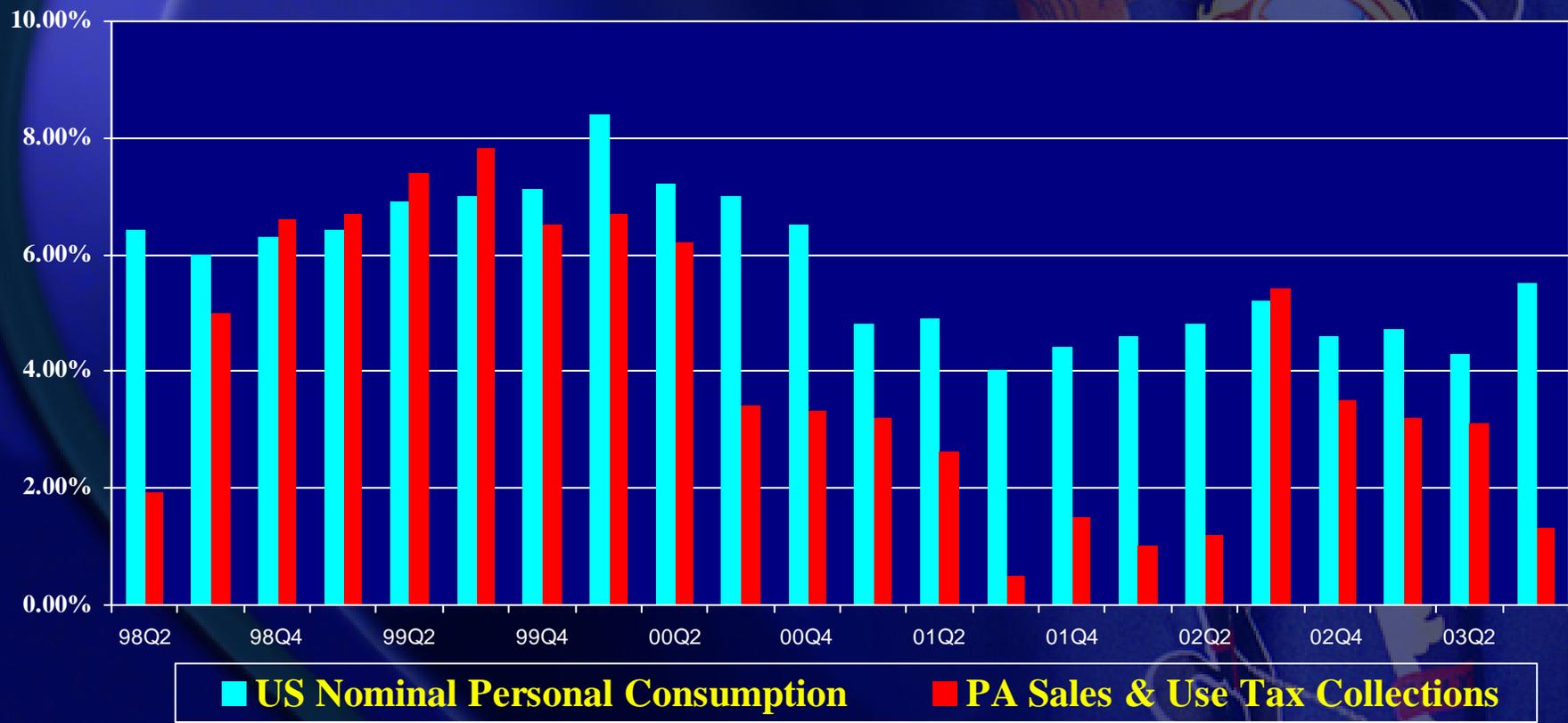
*Growth in employment in Pennsylvania and growth in employment in the US are moving in opposite directions. The US employment base, which is growing moderately, but Pennsylvania has been experiencing a net loss in employment growth since January '03. Current forecasts predict US employment growth of nearly 2% annually, versus half that for PA, through 2008. The goal of the Governor's Economic Stimulus Program is to improve these forecast results.*



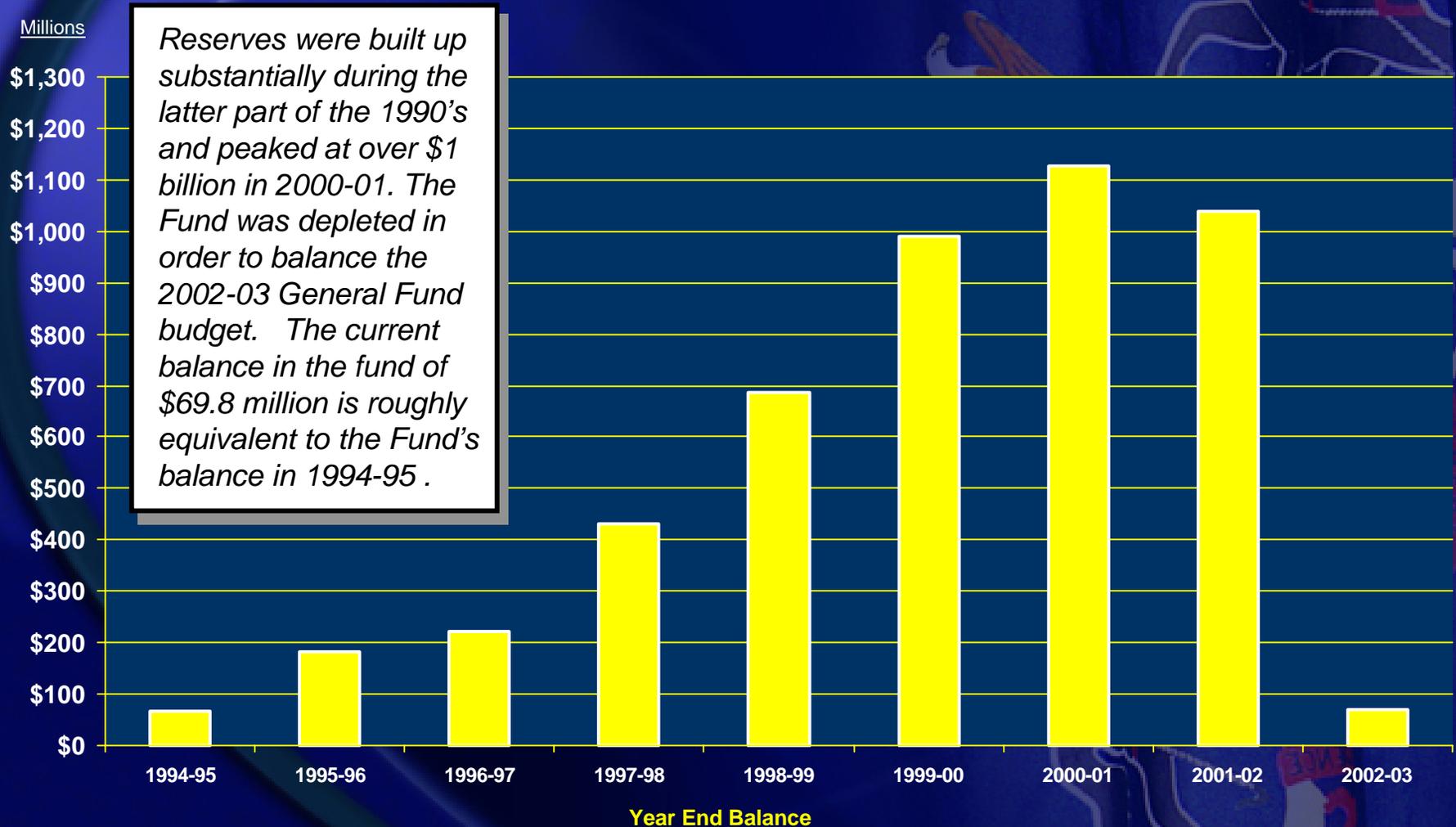
# US Nominal Personal Consumption vs. PA Sales & Use Tax Collections

## Year over Year Growth

*Growth in PA sales and use tax collections have not kept pace with growth rates for US personal consumption.*



# PA No Longer Has Substantial Rainy Day Fund Reserves to Help Us Cope with Unanticipated Financial Difficulties



# **The Rendell Administration's Major Budget Goals**

- ✓ **Return Pennsylvania to prosperity — increase job creation & economic opportunity**
- ✓ **Improve academic achievement in Pennsylvania's elementary & secondary schools**
- ✓ **Lower local property taxes**
- ✓ **Improve the quality of life in Pennsylvania's communities**
- ✓ **Maintain the social safety net to protect Pennsylvania's most vulnerable citizens**
- ✓ **Make Pennsylvania government more efficient and citizen-friendly**